Activist management : the institutional economics of Henry S. Dennison

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ACTIVIST MANAGEMENT: THE INSTITUTIONAL ECONOMICS OF HENRY S. DENNISON

A thesis in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

by

Kyle Donovan Bruce

1999
DECLARATION

I, Kyle Donovan Bruce, certify that this thesis has not been submitted previously as part of the requirements of another degree and that it is the product of my own independent research.

Signed: Kyle Donovan Bruce

1999
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ABSTRACT

Henry S. Dennison was a progressive Boston business man and economic analyst who, in both his private and public activities in the first half of the twentieth century, demonstrated an activist concern with the place and character of the modern business organisation, the control and management of these bodies and their human and non-human constituents, and the impact of the capitalist business cycle on wider society. The central contention of the thesis is that Dennison was both deeply influenced by, and made an important contribution to the institutionalist 'school' of economic thought. It is contended that in his reorganisation of the family company to remove absentee owners and in his concern with inherited traits and habits of thought and their impact on human motivation, the impact of Thorstein Veblen is salient. It is demonstrated that in his theoretical inquiry into the rationale and inner logic of business firms that he was one of the first organisational or management economists. That his labour economics and industrial democracy initiatives were applauded by John R. Commons who visited Dennison, and in later writings placed him at the end of an intellectual lineage from Marx to Veblen, from Veblen to F.W. Taylor, and from Taylor to Dennison, in terms of the latter's intuitive understanding of the labour process and its place in 'managerial transactions'. It is also demonstrated that Dennison also worked closely with other recognised leaders of the institutionalist approach, namely Wesley Mitchell and Edwin Gay, particularly on business cycles, which resulted in Mitchell embracing a micro-based conception of smoothing business cycles at the level of the firm. And it is demonstrated that in his intellectual relationship with John Kenneth Galbraith, he was a major influence on the latter's economic thought especially Galbraith's concern with management and the corporation. Dennison's place in the institutionalist rubric is further vindicated by his lifelong advocacy of economic planning, both micro and macroeconomic, by his dissatisfaction with mainstream economics particularly its ignorance of the inner workings of the firm and its simplistic view of human motivation, by his activist involvement in public life and his concomitant belief in the need for institutional intervention to correct market failure, by his interest in the corporation and the power of management and owners, and finally, by his personification of the nexus between economics and management. His lifelong interest in management issues foreshadowed the rise of management - as opposed to managerial - economics and the recent 'conversation' between the evolutionary variant of institutional economics and strategic management.
INTRODUCTION

Lord Keynes once wrote, 'Practical men who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist'. Mr. Dennison met his intellectual influences half way. His lively mind embraced not only the latest in economic theory but also philosophy, government, art, and other esoteric fields of knowledge. If he was enslaved it was certainly not to the past.


Approaching the 21st Century, there has been a renewed interest amongst economists in history, institutions and organisational behaviour. The award of Ronald Coase and Douglass North with the Nobel Prize in Economics are cases in point. Part of this development is a continuing dissatisfaction - in some quarters of the discipline - with the traditional, orthodox view of the economic world and its efficacy for guiding policy. This scenario mirrors a similar development in the US a century ago that (though for different reasons and of a greater magnitude than today) spawned the Institutionalist 'challenge' to orthodox economics. Then, as now, Institutionalist scholars turned their focus to the study of institutions, particularly the business organisation, the dynamics between economic actors therein, and the relationship between these organisations and the wider socioeconomic system, particularly the state. Moreover, heterodox economists then and now believe that it is these and like concerns that constitute important factors making for an adequate explanation of economic reality. Alongside these developments at the close of the last century was the emergence of the Progressive and Scientific Management movements. Like the fledgling Institutionalisists, the concern of thinkers in these movements also centred on the rise of the corporate business organisation and how these entities could and should be managed to ensure society's welfare was optimised.

As with other 'schools' or research programs of economic thought, erecting boundaries around adherents of institutionalism is problematic because individual members often differ in their outlook as to what the central tenets of the school are, or at

1 See, for instance, Blinder (1990); Galbraith (1991); Hahn (1991); Stiglitz (1991); Thurow (1992); and Nell (1993).
least should be. Yet despite differences between individual thinkers, one of the touchstones of American or ‘old’ institutionalism—with its roots in the German Historical School—was realism. They shared a belief that economics should be realistic and based more on inductive reasoning and real world events, not solely a deductive construct aided by assumptions to build formal models. The objective of the ‘founding fathers’ of institutionalism—Veblen, Commons and Mitchell—was to supplement mainstream theory in order to grapple with the urgent practical problems thrown up by the radically changing industrial landscape around them. This does not mean that they were atheoretical. Instead, in their search for realism they began with history and human experience rather than with a priori principles to build their theories. Accordingly, with the rise of pragmatist philosophy and social psychology, they did not regard economic agents as rational hedonists but rather as creatures of habit and custom deeply influenced by culture. They utilised a social or ‘holistic’ - as opposed to an individualistic - interpretation of human behaviour. They did not take the state of technology and the institutional framework as given but tried to take account of technological change so as to explain its impact on the structure and functioning of the economic system as they saw it (Gruchy 1972, 28-31; Dugger 1992, xvii).

Further, the old institutionalists viewed the economic system as but one part of a larger social system: as a dynamic, ongoing, and evolving process that did not necessarily reach some predetermined end; they had a non-teleological outlook. Following Veblen, they focused on studying the economic system as a whole rather than a collection of many unrelated parts. In this respect, their thinking reflected the post-Darwinian emphasis on evolution and dynamism rather than the mechanistic and static emphasis of the orthodoxy which they had ‘inherited’ from the Newtonian world. These critics also shared the German Historical School’s interest in the social effects of business and their belief in

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2 There is the added problem that there are different (historical) variants of institutionalism in the guise of ‘old’ or American institutionalism as promulgated by Veblen, Commons, Mitchell and their disciples, ‘neo’ or contemporary institutionalism such as that of Myrdal, Galbraith and members of the Association for Evolutionary Economics, and also ‘new’ institutionalism such as the work of Coase and Williamson and also Douglass North. These and like issues are discussed in more depth in Rutherford (1994) and Gruchy (1972).
creating some form of collective control or management over the evolving economic system. This belief in regulating the system took many forms, from collective bargaining to economic planning, and it was this common belief in 'managing' rather than acquiescing that brought some of the early institutionalists to an appreciation of scientific management.

New Institutionalism, that of Coase, Williamson, and North, differs in important respects from old institutionalism. In brief, the new institutionalists view the development and functioning of institutions largely in efficiency and economising terms, while the old incorporate important social (habits, customs etc) and political factors (like power and ideology) into their analysis (Rutherford 1995, 443-444). In other words, regarding the ‘variable’ to be explained, the new institutional economics focuses on institutional arrangements between economic actors governing their various interactions, whereas the new old and neo-institutionalists focus on the institutional environment or the fundamental legal and socio-political rules and norms (Groenewegen and Vromen 1997, 34).

The Value and Purpose of History of Economic Thought and an Introduction to the Topic

The inherent value and purpose of the history of economic thought is that many topics of interest amongst contemporary economists have roots that extend into the past and exploring these roots may result in greater clarity and understanding. Further, an awareness of these previous developments, and the conditions that brought them about contributes to an understanding of current intellectual problems, in particular, by:

1. identifying the progression in the development of a ‘school’ of economic thought;
2. recording the thought and textual investigation of contributors; and
3. revealing the possible sequence in which events, and the thought they shape, progress to their present status.

The present dissertation is an exercise in the history of economic thought that seeks to identify the ‘nature and significance’ of an individual’s contribution to a school
or research program in economic thought by reviewing his thought and ‘exegising’ from his written and spoken text. The dissertation pays particular attention to how the individual’s ‘lived’ experience shaped and steered his thought towards a particular program of economic thought.

The individual in question is Henry S. Dennison (1877-1952) who spanned the intellectual development of Institutionalism in economics and Taylorism or ‘science’ in management. Dennison was a Boston paper-products manufacturer and economic analyst. In a career spanning some fifty years, he was a devoted exponent of scientific management, a pioneer advocate of unemployment insurance, and a leading corporate liberal of the interwar period. Analyzing his role as an industrial and economic adviser to the Wilson, Hoover, and Roosevelt administrations assists us in understanding the mixed system of private and public economic power that evolved in the US amidst depression and two world wars. His attempts to understand the characteristics and potentials of American political economy make him an economic analyst worthy of close scrutiny.

In both his private and public activities, Dennison demonstrated an activist concern with the rationale and character and the control and management of the business enterprise, and also with the impact of the capitalist business cycle on broader society. He sought to deal with these issues in his role as a business leader and public figure; that is, as a practitioner or ‘doer’. But he did so also as a theoretician or ‘thinker’, both in the discipline of economics and also in management. His thought in these avenues was published widely in economics, management and other social science journals, and in the five monographs he published. In this context, a central argument of the dissertation is that it was the tension between Dennison’s practice and his theoretical bent, viz. his praxis that shaped his economic thought and led him to an embrace of institutionalism. This study explores the published and unpublished opus of a leading business figure whose ideas are as relevant now as they were during his lifetime.

3 In this context, Dennison was one-time president of the Taylor Society (1919-1921) devoted to the philosophy of Frederick W. Taylor, the ‘father’ of scientific management; his company, the Dennison Manufacturing Company, was the first in US history to introduce private unemployment insurance in 1916; and between 1923 to 1927, Dennison did voluntary work for US Post to improve employment relations and their service to the public.
Objectives of the Study and a Statement of the Thesis

The dissertation is motivated by a desire to contribute to the important efforts of contemporary historians of economic thought to bring to light the work of 'unsung' contributors to theoretical and practical institutional economics. In so doing, the contention of the dissertation is that Dennison made a significant but largely unheralded contribution to institutionalism. Though piecemeal efforts have been made to chronicle various aspects of Dennison's activities, these snippets of insight have usually been a part of a wider story dealing with more general and wide-ranging topics of interest to economic, business and labour historians rather than to historians of economic thought. There has been no serious attempt by historians of economic (or management) thought to systematically explore Dennison's life or the substantial opus of economic thought, both published and unpublished, that he left in his wake. The present dissertation seeks to amend this oversight and undertake a comprehensive review of Dennison's economic thought in order to pull him out of relative obscurity and discern how his thinking on the nexus between economics and the 'science' of management evolved over the period 1900-1952 and led him to embrace institutionalism.

The central contention of the dissertation, then, is that Henry S. Dennison was influenced by, and made a significant contribution to institutionalist economic analysis. It is contended that as a product of turn-of-the-century developments in economic and management thought, Dennison made noteworthy but largely unexplored contributions to both of these fields. The precise nature of Dennison's embrace of institutionalism and the 'science' of management is clarified throughout the thesis in several ways but rests ultimately on a systematic review of his published and unpublished writings, and to a lesser extent by overviewing his professional and intellectual relationships with noted

\footnote{For instance, the work of Donald Stabile (1993) on unionist and labour economist, Solomon Barkin. Indeed, and as the title of the dissertation suggests, Dennison’s institutionalist thought, evolving as it did from his concern with management matters, can be seen to be the mirror image of Barkin’s institutionalism that emanated from his lifelong service to labour and the trade union movement.}

\footnote{For instance, McQuaid (1975, 1977); Reagan (1982); Duncan and Gullett (1974).}
institutionalist economists, his dazzling public service career, and his implementation of company policy.

In his concern with removing absentee ownership from his family company and in his constant questioning of mainstream economists' conception of 'economic man', Dennison's thought was akin to Veblen's. It will also be demonstrated that Dennison was one of the first 'organisational' economists, concerned as he was with the rationale and the inner workings of business firms. He also made ground-breaking progress in what today is called human resource management. It will be shown that John Commons, who visited and collaborated with Dennison, applauded his contribution to the better understanding of labour economics and industrial democracy. It will be seen further that in his role in the interwar business stabilisation movement and his work on business cycles, coupled with his stints of public service, that he worked very closely with, and made a lasting impression on institutionalist economist Wesley Mitchell. And it is shown that in his intellectual relationship with John Kenneth Galbraith, he played a key and hitherto undocumented role in the latter's embrace of heterodox economics, particularly Galbraith's incisive work on the place of management, the corporation, and unions in the US economy.

In undertaking the foregoing, it is demonstrated that Dennison possessed many of the traits historians of economic thought utilise to characterise those economists working in the institutionalist tradition. As an economic analyst, he was critical of mainstream economics particularly as regards its ignorance of the inner workings of the corporation, and its cavalier treatment of the motives and impulses of economic agents. As a scientific manager, he shared the institutionalist belief in the efficacy of economic intervention for correcting market failure, initially at the micro and industrial level, but eventually at the level of the nation-state. And like his associates Commons, Mitchell, and Gay, and their disciples J.M. Clark, Rexford Tugwell, Gardiner Means and others, Dennison was actively involved in public life serving on many prestigious government panels assembled to improve the understanding and functioning of the institutional structure of the US socioeconomic system.
Dennison was deeply concerned with the dynamic intramural of the corporation and with the power and psychological relationships between the economic actors at play in these institutions. In fact, his status as a manager and an economic analyst trying to pry open the 'black box' of the business organisation shows Dennison to be a close ancestor of recent organisational and institutionalist economists, particularly those in the evolutionary tradition, who have attempted to generate a greater 'conversation' with the discipline of management as a means of better understanding firm heterogeneity and management behaviour. In this context, it will be demonstrated that Dennison personified the interconnectedness of economics and management. Like the 'founding fathers' of institutionalist economics, Dennison recognised at the turn of the last century, what many economists are coming to grips with today: that institutions, organisation, planning, coordination, in short, management is a crucial factor in value and wealth creation. Indeed, what commentators today ascribe to the Japanese in their leadership of the 'third (microelectronics-based) industrial revolution' are policies that Dennison implemented in his own company, and moreover, when in public service he attempted to establish as 'benchmarks' or 'standard best practice' throughout US industry.

Another objective of the dissertation is to situate Dennison in the debate amongst institutionalist economic analysts as to what exactly constitutes the core institution for theoretical analysis and policy prescription; that is, should it be the firm, or the state? Likewise, given that democratic economic planning is a major policy commonly espoused by institutionalists, at what level should such planning take place: the firm, the industry, or the macroeconomy? It will be shown that Dennison's conceptions of institutions and planning evolved, as did those of the recognised leaders of the institutionalist school, over time.

Finally, the dissertation aims to paint a more accurate picture of the relationship of the scientific management movement - of which Dennison was a leading figure - with the economics profession in the period under scrutiny. Namely, it aims to test the claim of revisionist scholars across the social science spectrum, that scientific management was much more than microeconomic planning, that it evolved to embrace industry-wide and
democratic national economic planning. The thesis aims to demonstrate that this evolution within the Taylorist movement actually reflected, and even catalysed a similar evolution amongst those institutionalist economists associated with scientific managers like Dennison, as regards what constitutes the institution of focus and what is the appropriate arena for economic planning.

**Organisation of the Thesis**

Given the central contention of the dissertation and the manner in which Dennison’s contributions evolved, the dissertation is divided into five chapters each of which directly corresponds to Dennison’s key contributions to institutionalist economic thought. It is seen that his contributions were shaped by three interrelated forces: first, by policies implemented in his position as the managing director of a medium-sized manufacturing concern; second, by his activist role in US political economy in the first half of the present century; and third, by his associations and correspondence with pivotal figures in the institutionalist tradition.

Chapter One provides a biographical and bibliographical overview of Dennison to introduce the reader both to the intellectual milieu within which his institutionalist outlook developed, and to his substantial opus of published and unpublished thought. A brief history of his family’s company is provided to set the scene for his entry to the firm and to glean the impact of his corporate activities on his economic and management thought. His Harvard education is reviewed to gain an insight into his intellectual development and to identify what forces were at play in moulding his institutionalist predilections. Attention is also paid to Dennison’s philosophical ‘world-view’: his moral and ethical beliefs underlying his life work and shaping his economic thought.

Chapter Two is concerned with perhaps Dennison’s most important and enduring contribution to institutionalist economic thought: his management or organisational economics. Beginning with his implementation of company policy, Dennison’s management economics centred initially (and ultimately in his final published paper just prior to his death in 1952) on his concern with corporate structure; namely with removing
absentee ownership and financier control over company policy, and their replacement with an internally selected echelon of 'technocrats'. It is here that Dennison's thinking resembles that of Veblen and to some extent anticipates Galbraith. His management economics matured as a result of his involvement with the scientific management movement in the 1920s and became concerned with issues of human motivation, organisational psychology, dynamics, and learning; the function and profession of management; and with business strategy and planning and the generation and sustenance of competitive advantage. In these contributions, Dennison is seen to be an original and articulate thinker fitting squarely in the institutionalist tradition and one of the first 'organisational' economists.

Chapter Three is concerned with Dennison's labour economics and his contribution to US industrial relations and personnel management. Carrying over from his insights into organisational psychology and human motivation, Dennison was a pioneer in personnel management and he was a champion of institutional intervention in the labour market in the guise of collective bargaining and protective labour legislation. His company was the first in US history to implement private unemployment insurance and he was a key figure in implementing profit and management sharing to democratise US industry. He made a great impression on the institutional economist, John Commons, who placed Dennison at the end of an intellectual lineage stretching from Marx to Veblen, from Veblen to F.W. Taylor, and from Taylor to Dennison in terms of their treatment of Commons' notion of "managerial transactions" in the context of the labour process.

Chapter Four explores Dennison's contribution to microeconomic stabilisation and business cycle theory. Emanating from countercyclical measures practised at his own company, Dennison's theory is shown to have matured and become more informed as a result of his extensive correspondence with pioneer business cycle theorist and institutionalist, Wesley Clair Mitchell, and as an outcome of his involvement with prestigious economic advisory groups under Herbert Hoover and with the National Bureau of Economic Research. In this context Dennison encapsulated the institutionalist belief that though cycles were inevitable economic events, they could and moreover,
controlled in the interests of society’s welfare. Such control strategies revolved around firm-level measures proffered by the business regularisation or stabilisation movement of which Dennison was a key figure; namely, the realisation that cycles were largely shaped by business and financial decisions and so were amenable to smoothing by more informed and cooperative decision making. It will be seen that the micro-based macro policies for smoothing cycles proffered by Dennison and others were instrumental in Mitchell’s own evolving conception of business cycle theory.

Chapter Five is concerned with Dennison’s thinking on macroeconomic policy in the context of the Great Depression and the ensuing New Deal(s). It examines the embryonic form of his heterodox, ‘proto-Keynesian’ insights into the causes of and remedies for the Depression and his call for national economic planning as he drew on his war-planning experience during the time he served in New Deal planning institutions such as the Business Advisory and Planning Council, the Industrial Advisory Board, and the National Planning Board.

Perhaps most important for the central contention of the dissertation, Chapter Six is a ‘case-study’ chapter examining Dennison’s intellectual relationship with John Kenneth Galbraith. It demonstrates that through their debate and collaboration on two monographs, Dennison played a vital and hitherto unexplored role in the intellectual ‘conversion’ of Galbraith to heterodox economic thought; initially to an embrace of Keynesian ideas and ultimately to an appreciation of institutionalism which is evident in the work that Galbraith undertook following Dennison’s death.

The concluding chapter overviews and appraises Dennison’s contribution to institutionalist economics, paying particular attention to the degree of originality and influence of his thought and also to the general importance of Dennison’s thought for developments in US political economy. In so doing, this writer is cognisant of Lionel Robbins’ suggestion that contributions to scientific research programs be assessed according to the their originality and the extent to which they influence the thinking of others in the field. Accordingly, special attention will be paid to Dennison’s legacy in the business community and the profession of management; in the realm of business-
government and management-labour relations; and most importantly, in the history of economic thought, particularly as regards his influence on Wesley Mitchell, John R. Commons and John Kenneth Galbraith.
CHAPTER ONE

HENRY S. DENNISON: A BIOGRAPHICAL AND BIBLIOGRAPHICAL OVERVIEW

The material framework of modern civilization is the industrial system, and the directing force which animates this framework is business enterprise...The business man, especially the business man of wide and authoritative discretion, has become a controlling force in industry...Hence upon him and his fortunes centres the abiding interest of civilized mankind.

In so far as the theorist aims to explain the specifically modern economic phenomenon, his line of approach must be from the business man's standpoint, since it is from this standpoint that the course of these phenomena is directed. A theory of the modern economic situation must be primarily a theory of business traffic, with its motives, aims, methods, and effects.

Thorstein Veblen, The Theory of Business Enterprise

The American businessman is a notable figure in our time, and it is rather surprising that so little self-conscious consideration has been given his attitudes and beliefs.

John Kenneth Galbraith, 'The Businessman as Philosopher'

The pivotal role afforded business leaders and the enterprises under their control highlighted by Veblen and urged by Galbraith appears to have gone largely unheeded by most mainstream economists, though it has been accepted by several of those working in the institutionalist tradition. The present dissertation heeds Veblen's message in that, attempting to explain Dennison's place in institutionalist economics, it begins with his standpoint and 'fleshes out' the "motives, aims, methods and effects" of his various private and public activities. For it was these activities and those of like-minded business leaders that set in motion the trajectory spawning US managerial capitalism and its concomitant cultural artefact, the modern business corporation in the 20th century.

Given the strategic role of business leaders in shaping both US political economy and economic discourse in the 19th and 20th centuries, it makes sense for historians of economic thought to focus on the ideas and thought of businessmen. In a much overlooked essay, 'The Businessman as Philosopher' written in 1955, John Kenneth Galbraith expressed his surprise at the lack of attention given to the attitudes and beliefs
of businessmen. This can be partly explained by the fact that most businessmen are not overly conscientious about putting their thought into written form. Indeed, as Galbraith has observed, most of their opinions are oratorical and more often than not take the form of ‘luncheon’ talks or convention addresses not directed to the public at large but to fellow businessmen (Galbraith 1955, 57-58). Their philosophy and attitudes can only be gleaned, therefore, from snippets of published and unpublished speeches, articles and books. As Kroos (1970, 6) has observed:

Businessmen are not intellectuals. The businessmen who would be successful cannot indulge much in the imaginative self-doubts that sometimes haunts the intellectual. Then, too, he is much less concerned with thinking about abstractions than with acting on practical matters.

An exception to this characterisation was Boston paper-products manufacturer Henry S. Dennison, whom Kroos (1970, 73) described as "thoughtful and articulate". Similarly, Duncan and Gullett (1974, 133) note that though Dennison was a practical man, "he displayed an inclination toward idealism rarely found outside academe". Throughout his impressive business and public service career in the first half of the 20th century, Dennison articulated his economic (and management) thought in leading journals, in the print media, and in published monographs. He lectured at Harvard Business School and was active in Harvard academic life, maintaining firm contacts with his friends Edwin Gay in the Business School (and later the Department of Economics), Felix Frankfurter in the Law School, and John Kenneth Galbraith in the Department of Economics. With Gay, Dennison was instrumental in the founding of the Business History Society with its journal, the Business History Review. With Galbraith, he collaborated on two monographs.

Dennison therefore enjoyed the vantage of being both a practitioner and an intellectual or theoretician. This dissertation examines both these roles and analyses how the tension between the two evolved and steered Dennison's attitudes on economic matters towards an embrace of institutionalism. This point must be emphasised, because it was this tension between Dennison’s practice and his theory – his praxis – that was the fundamental source of his contribution to economic thought. In other words, Dennison’s
economic thought evolved from his practical and lived experience as a leading business figure in the 20th century. So although much of his thought was somewhat a reflection of the intuition and hunch of a business man and business opinion in general than it was highly original, pure or 'high' theory (his management economics notwithstanding), his contribution to economic thought can be gauged from his influence both on recognised economic theorists of the time and on corporate and government policy. It is timely to recall Robbins' observation that the 'nature and significance' of an individual's contribution to scientific discourse can be assessed from the originality of their ideas and the degree to which their contribution influence others.¹

The present chapter overviews Dennison's biographical background and his bibliographical opus of published and unpublished economic thought. In this context, it is both useful and enlightening to situate Dennison in the socioeconomic milieu of his time in order to glean the environment in which his economic thought developed. Attention is paid, here, to the history of his family's company, the Dennison Manufacturing Co., his Harvard education, his meteoric rise through company ranks to assume the presidency in 1917, his involvement in the scientific management movement, and his role at the fledgling Harvard Business School. In addition, a brief portrait is painted of Dennison the man; viz. his 'life philosophy' or ethical beliefs and their impact on his business practice and on his economic thought. The chapter also overviews Dennison's unique (at least for a businessman) and substantial published and unpublished opus in the areas of economic and management thought as a preparatory exercise for the purpose of the dissertation: to assess their quality or otherwise as original and influential contributions to institutionalist economic thought.

¹ On the issue of originality in scientific discourse, in a famous presidential address to the AEA, Schumpeter (1949, 349; emphasis added) argued that pretensions aside, no scientist is completely original, a fact as applicable to Dennison as it is any other social scientist: "In practice, of course, we hardly ever start from scratch so that the prescientific act of vision is not entirely our own. We start from the work of our predecessors or contemporaries or else from the ideas that float around us in the public mind. In this case our vision will also contain at least some of the results of previous scientific analysis".
A Brief Background of the Dennison Manufacturing Co.

In 1844, because of competition in the shoe industry due to specialisation, mechanisation and standardisation, a shoemaker of Brunswick, Maine called Andrew Dennison (great-grandfather of Henry S. Dennison) turned his craftsmanship to cutting out paper forms for the making of jewellers' boxes, which at this stage were imported from France. These boxes found ready sale in Boston and New York, largely due to the marketing efforts of Andrew's son Aaron, and soon this 'cottage industry' was thriving.

Henceforth the company's history reflected that of a typical successful businesses in mid to late nineteenth century America, and followed the pattern painted by the likes of Alfred Chandler in most of his work (Chandler 1962; 1977; 1990). When a younger son, Eliphalet Whorf, took over Aaron's marketing functions, he quickly aimed to boost business via aggressive selling and expansion of product line urging his father to transfer operations to Roxbury, Massachusetts in order to be nearer the new railroads and so, the market. This caused friction between the 'father-and-sons' operation and Eliphalet eventually became sole owner of the jewellery box business in 1855—in many accounts, he is often referred to as the 'founder' of the business because of his forceful and visionary style. He opened an office in New York and diversified into the making of boxes for plasters, flowers, bottled drinks, and needles. In addition, cards, fine cotton, tissue paper, and tags were manufactured for the (still) principal outlet of jewellers. The aforementioned tags were the forerunners of merchandise tags, and later shipping tag lines that were to play a major role in the growth of the business and established brand recognition for it (Hayes 1929, 468-470). For his part, after 'retiring' from the box business Aaron Dennison devoted himself to the successful development of the machine-made watch and has been called 'the father of American watch-making' (DMC 1919, 13).

Out of his eagerness to merge the producing and marketing branches of the business, E.W. Dennison established a box-manufacturing unit near Boston at around the same time he bought out his father's interest. And where Aaron Dennison and his father turned out the boxes by hand, E.W. Dennison enjoyed the economies of the first
ever box machine (DMC 1919, 19). From here on and through the Civil War, the main line of business was merchandise tags and shipping tags. Shopkeepers who previously had used home-made marking devices for their merchandise now demanded better-looking tags. The tags then in use in the shipping tag business were either rough manila paper or imported linen both with metal eyelets, which were unreliable and expensive respectively. E.W. Dennison realising his opportunity, worked on strengthening his company’s paper and devised a gummed paper washer or patch to replace the eyelet. After patenting the latter process, he was in a position to produce tags markedly superior to his competitors and the profits thus enjoyed, he used for rapid expansion.

In 1863, in search of new capital for further expansion during the Civil War, he formed a partnership that provided capital that allowed a larger inventory to fill orders as fast as they arrived and gave the organisation a degree of permanence (Reagan 1982, 148). It was about this time that the company enjoyed the spoils that go with brand recognition: the Dennison Manufacturing Co. came to be known as "The Tag Makers". From 1863 until 1875, despite postwar adjustment problems, the Dennison business expanded rapidly in terms of sales, product, and producing and marketing facilities. So much so that in 1878 the business was incorporated and E.W. Dennison relegated the reins to his younger executives, one of whom was his son, Henry B. Dennison (H.S. Dennison’s father). It should be noted that with this incorporation, E.W. Dennison made a provision that enabled certain of his principal "helpers", as he called them, to acquire stock, to be paid for out of profits. While this provision was short lived, it was to become important in the later thinking of the focus of this dissertation, H.S. Dennison. Henry B. Dennison’s health was not to prove equal to his responsibilities and he was forced to resign by the sales directors and the presidency of the company went to the New York manager of operations, H.K. Dyer, who remained president until 1906. The forced resignation of his father, the factory head, by the sales directors ultimately engendered in H.S. Dennison’s a strong pro-factory bias (Dennison 1955, 10).

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2 H.B. Dennison, Henry’s father was, in actual fact, a chronic alcoholic and so played a decidedly marginal role both in the company and in the life of his son, a point to be explored in more depth below.
In the 1880s the exploitation of coloured tissues for art work was undertaken, as was a line of sealing wax in twenty different colours. In the 1890s it was paper napkins and crepe paper. These new products brought Dennison into contact with the home consumer, who, alongside the opening of art departments within retail enterprises and public product demonstrations, changed the shape of stores from wholesale to retail centres. These art departments educated both the public and Dennison retailers as to the use of company products (DMC 1919, 45-47; Hayes 1929, 478-480).

Dennison’s childhood, his economics’ education at Harvard, and the impact of Taussig

Born into an upper class Boston home in 1877, Henry S. Dennison was prepared early for a substantial social position. He was quite literally born into capitalism, following in the footsteps of his father, and his father’s father. He entered the Dennison corporate structure at the age of three, when his father gave he and his (half) sister two shares each of Dennison Co. stock and made them the only non-managerial voting stockholders in the company. He attended the prestigious Roxbury Latin School and upon graduation from Harvard in 1899, he joined the family company where after spending several years in middle level jobs he became company president in 1917.

Details of Dennison’s childhood are sketchy at best. According to his only son, James T. Dennison, in an interview with this writer, this sparsity of detail as to his father’s childhood is a reflection of the fact that there is not all that much to tell. One thing his son did make clear, however, is that owing to the alcoholism of Henry’s father, and possibly the fact that his mother died giving birth to him, Henry S. Dennison the boy was reserved and withdrawn. His father remarried but young Henry did not ‘get along’ with his stepmother nor with his half-sister, Minnie. Henry B. Dennison, J.T. Dennison

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3 Previously, crepe paper had been imported from Great Britain. Dennison Manufacturing produced the first crepe paper in the USA.
4 Incidentally, Dennison’s family company still operates today, following a 1990 merger, as the Avery-Dennison Corporation, a $5.5 billion Fortune-500 company recognised globally for its innovative pressure-sensitive technologies and products. Its core business remains as paper and adhesive products.
asserts, never truly acted as father to Henry S Dennison. Accordingly, there was little or no family affection in Dennison's childhood home. He reputedly devoted most of his affections to his beloved violin (later at Harvard, Dennison actually led a small orchestra!) and to collecting stamps. He also had a great love of nature and found sanctuary in the New England countryside.

Being largely estranged from his father and stepmother for most of his childhood, Dennison developed a fiercely independent nature eschewing parental affection, which, at any rate, was rarely forthcoming. Following his father's loss of company control to the Dennison sales managers, Dennison's paternal uncle C.S. (Charlie) Dennison played an increasingly important role in young Henry's life. Apart from acting as a father figure to young Henry, he and his uncle shared a staunch desire to re-establish family and factory (production) control over the Dennison company. It would seem that Henry Dennison was well aware of his corporate destiny before he entered Harvard. There was never any real doubt in either his or his uncle's mind about what he was going to do with his life, or with the family company. Control of the Dennison Manufacturing Company had to be restored to the Dennison family and to the focal point of manufacturing operations at Framingham, Mass. After all, he could not lead an orchestra forever (J.T. Dennison 1999).

Dennison attended Harvard from 1895 to 1899, years he spent working towards a typical (American) four-year liberal arts degree which included two years of economics. His education occurred at the same time as economic thought became more catholic and the ground was being laid for the institutionalist challenge to economic orthodoxy. The final quarter of the nineteenth century, in which Dennison developed intellectually, was a period of immense social change, economic disturbance and political agitation. The temper of the time as far as economics is concerned was summed up succinctly by Dorfman (1949, 215):

^It was after this time that Dennison began his somewhat meteoric rise to public prominence: becoming President of the Taylor Society in 1919 and serving in the Wilson administration's War Industries Board and the First Industrial Conference.

^This is an important point as it may explain Dennison's later dislike of paternalistic welfare measures.
The nineties opened in a state of unrest and continued that way. The monetary problem, which had been plaguing the country since the Civil War, reached its climax in 1896 and was settled, not by economists, but by gold miners. The organization of labor went on, in a hostile environment little alleviated by the economists. Lip service only was paid to the public control of railroads. The question of monopolies was discussed, and any decision postponed to the future. The decade's political activity, which was extremely turbulent, was tied up with these economic problems, made critical by a major depression, until the Spanish-American war proved the most effective stimulant to our economic system. All in all, in such an environment economic thought should have been wide-ranging and widely read, and it was.

In response to new demands of the nineties, economic thought became more mature and complex. Within the profession discussion was less marked by personal animosities, controversy was on a higher level, and opposition to ideas was made dispassionately. Advances were made in marginal utility theory and it was possible to consider Marx's ideas in a sane fashion. Orthodoxy remained dominant but not inflexible (Dorfman 1949, 237-238). In short, catholicism and a relative absence of narrow doctrinal interpretation in economic thought characterised US economics in the late 19th century, particularly at Harvard under the mantle of W.J. Ashley and F.W. Taussig (Samuels 1992b, 176).

One of the consequences of these years of economic and social change and relative tolerance amongst the profession was the development of considerable dissent among economists from the orthodoxy based on Smith, Ricardo and Mill. Prominent among these dissenters were Simon Patten and Richard Ely who together were a formative influence in the genesis of the American Economic Association, and Thorstein Veblen, who with John R. Commons and Veblen's student Wesley Mitchell, are considered the 'founding fathers' of (old) institutional economics. Prior to the 1940s, institutional economics was first and foremost an American intellectual development. This was because though the likes of John Hobson, Richard Tawney, G.D.H. Cole (and other Fabians) in England, and Werner Sombart (and other members of the Historical School) in Germany had criticised the orthodoxy, it was never with the same vigour and tenacity (with the exception of Marx) which Veblen had applied. Furthermore, institutionalism in Western Europe never gained the academic foothold it enjoyed in the
US where the larger number of universities provided more academic opportunity for the dissemination of the economics of dissent than was the case in Europe (Gruchy 1972, 19).

Dennison’s Harvard enrolment record suggests he took courses in English, German, Philosophy, Mathematics, and Chemistry as well as in Economics. The record indicates that Dennison read two years of economics in his last academic years at Harvard, 1896-97 and 1898-99, but unfortunately does not specify the exact titles of the subjects read (Academic Transcript, 1899, Pusey Library). During Dennison’s time studying economics at Harvard, F.W. Taussig was a full professor and conducted both the general introductory course in the subject, Economics A (or Political Economy I as it was then called) and the intermediate subject, Economics 2. In fact, one of Taussig’s many periods of tenure over both the elementary and the intermediate courses – 1896-1901—coincides exactly with Dennison’s enrolment in economics during the 1897-1898 and 1898-1899 academic years (Schumpeter 1966, 202 n18; Samuels 1992a; Dennison: Academic Transcript, Harvard University Archives—Pusey Library). Economics A was a requisite introductory subject for students wishing to pursue further studies in economics (Taussig 1930, 195), and Dennison did read further economics subjects, including, in all likelihood (given the natural progression of subjects), the intermediate course Economics 2.

While Dennison’s academic transcript does not specify exactly what economics subjects he read at Harvard, what is certain is that he was definitely taught by Taussig; most certainly in Economics A, but quite possibly also in Economics 2. In this context, Dorfman (1949, 270) has stated that “(p)ractically every Harvard student of economics studied under him (Taussig) for he taught and supervised the basic elementary course in the subject”. While Dennison himself, later stated that “(o)nly a few months after I left Uncle Frank Taussig’s delightful class and started in business I bumped into an ordinary business fact which snarled all the theory I’d gotten” (Dennison 1943, 49). This is further supported by that fact that in an unpublished retrospective, he included Taussig in

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7 As a matter of interest, Taussig was a teacher of Franklin D. Roosevelt and also the only American
“the list of men I got to know and could learn something from” (Dennison undated, Recollections Folder, Baker Library).

Given Taussig taught Dennison, what impact might ‘the magisterial teacher’ have had on the economic thought of the young undergraduate? In other words, did Dennison’s Harvard economics education provide an environment conducive to his subsequent embrace of institutionalist economic thought. To answer this question one must briefly peruse both Taussig’s teaching and economic thought and also the views of those analysts familiar with his Harvard legacy.

Taking up the latter task first, on the one hand, Taussig’s Harvard colleague Gottfried Haberler suggests that “Taussig had a stronger influence than any other American economist of his time” (Haberler 1968, 517). Yet on the other hand, if one accepts Dorfman’s treatment of Taussig’s thought then the likelihood of a positive environment for Dennison’s evolving sense of institutionalism is minimal. Dorfman has reported that despite Taussig’s liberal approach to the ideas presented in the Quarterly Journal and his tolerance of heterodox ideas in general, Taussig was fairly conservative. Dorfman (1959, 240-243) characterised Taussig as having a “cautious bent towards social change” particularly regarding collective bargaining, compulsory social insurance and unemployment insurance because, unlike her British and German counterparts, America lacked the relevant socio-political or institutional framework to adequately handle these practices.

Yet this reading of Taussig does not sit at well with the assessment of his thought offered by Schumpeter (1966), who was Taussig’s colleague for almost all of the final decade of the latter’s life, nor with a more recent assessment by contemporary institutionalist Warren Samuels (1988). ‘The American Marshall’, as Schumpeter called Taussig, had a great affinity (and a long trans-Atlantic friendship) with Marshall in that economist ever awarded an honorary doctorate by Cambridge University.

Supporting this view, Dorfman cited Taussig’s attitude in the wages-fund debate. In this context, Taussig’s theory of wages was said to be like J.B. Clark’s: wages are determined under competitive conditions by the discounted marginal product of labour (Dorfman 1949, 267). Dorfman argued further that Taussig was critical of Clark’s claim that labour gets its own specific product because it implied the normative proposition that this was all that labour ought to get. For Taussig this raised deep-reaching questions as to justice that he believed lay outside the realm of economics.
both readily identified with the classical tradition of Ricardo and Mill, even though both
were prepared to accept the improvement, elaboration and refinement of these ideas in the
guise of modern marginalist analysis associated with the so called neoclassical epoch
(Haberler 1968, 518; Samuels 1988, 596). This is an important point because like
Marshall, who is commonly perceived as a central figure in the evolutionary variant of
institutionalism, much of Taussig’s work was compatible with institutionalism, “but his
establishment position apparently kept those in the latter tradition from fully appreciating
his contributions” (Samuels 1988, 596). This sentiment is soundly echoed by
Schumpeter (1966, 196) who has observed of Taussig:

The institutionalist opposition that later arose to the type of theory he taught,
seems however to have overlooked that a great part of his work was on
institutional lines and that, in important respects, it would have been more
correct to claim him as a leader than it was to consider him an opponent.

Though an eminent theorist and a great teacher of theory, economics for Taussig always
remained political economy. He always viewed economic problems in terms of their
social setting and in their historical perspective. “The practical problem in its historical,
legal, political, in short, in its institutional aspects attracted him much more than any
theoretical refinements ever did” (Schumpeter 1966, 196). This feature of Taussig’s
thought has been emphasised by eminent Harvard sociologist, Talcott Parsons. Parsons
was of the view that Taussig occupied a middle ground between detached and elegant
theory and pragmatic empiricism, and possessed the quality of recognising that under
actual rather than assumed social conditions, the free exercise of individual economic
interest works out at best imperfectly to the maximum benefit of society. The whole
gamut of “predatory” activities in business and elsewhere, typically overlooked or
ignored by most economists was of central concern for Taussig. He was also sceptical of
the simplistic and mechanistic assumption of hedonism supposedly driving human
motivation:
(his) clear grasp of the concrete reality of economic life...made him realize that of the motives important to the concrete results of business and industrial activity, many would not fit, not only into strict hedonism, but into any form of the self-regarding type in the ordinary sense" (Parsons 1936, 362-371).

Taussig's apparent institutionalist bent, and his liberal editorship of the *Quarterly Review of Economics*, is perhaps best encapsulated by his documented admiration for Veblen. As editor of the *Quarterly Review*, Taussig opened the journal to most of Veblen's major papers in economic theory and contrived to invite Veblen to give a series of lectures at Harvard on 'The Instinct of Workmanship'. In this way, Taussig was anxious that Veblen finish *The Instinct* being fully aware of Veblen's vicissitudes emanating from 'involuntary' changes in his university posts. Taussig remarked to Wesley Mitchell in 1910 that "(a)s you know, I think well of Veblen and have learned...of his difficulties of the present year" (Taussig cited in Dorfman 1964, viii). He described *The Instinct* as "a brilliant and original book, like everything that comes from his pen" (Taussig cited in Dorfman 1964, ix).

As to Taussig's economic thought, with the exception perhaps of *Wages and Capital* (1896) and papers on German employment insurance in 1887 and 1889, the primary focus of his thought during Dennison's time at Harvard was with the topic for which he is most noted: international trade and the related question of tariff protection. It was after Dennison's time at Harvard, in the *Principles of Economics* (1911), *Inventors and Money Makers* (1915) and *American Business Leaders* (1932), that Taussig's thought took on a decidedly institutionalist guise. In this context, he also undertook a statistical study of American corporations and business management in 1925. In the *Principles*, though primarily a textbook (and a much influential one at that), Taussig, like Marshall drew heavily on material he himself had collected over years of empirical observation. *Inventors* was a realistic, economic-sociological analysis of the type and behaviour of the entrepreneur containing a study of institutions and that of individual and group behaviour within an institutional setting. In *Business Leaders*, Taussig undertook an analysis of the complex psychological basis of economic behaviour and the role of
leadership in the successful operation of the market economy using a questionnaire. In
the context of the last, Schumpeter observed that Taussig (in some ways akin to Veblen)
"was among those few economists who realize that the method by which society chooses
its leaders, in what, for its particular structure, is the fundamental social function – such
as, for instance, was the function of the warrior in feudal society – is one of the most
important things about a society, most important for its performance as well as for its
fate" (Schumpeter 1966, 217).

Having made this point, what then of Taussig's teaching during Dennison's
enrolment in the second half of the 1890s? As noted above, Dennison would have had to
have taken the introductory subject Economics A, and he quite possibly also took
Economics 2 both of which were taught by Taussig. Accordingly, Dennison would have
been exposed to the topics of value, price, cost of production, wages, and profits in the
works of Ricardo, Mill, Cairnes, Walker, and Taussig himself, particularly on the
Wages Fund debate. Discussion also included the thought of Marshall, Bohm-Bawerk,
and the German Historical School. Among the textbooks used in these subjects were
Taussig's own Wages and Capital and Marshall's Principles, of which Taussig was
particularly enamoured (Samuels 1992a).

From both his Harvard lectures and his text, Wages and Capital, a number of
elements can be gleaned in Taussig's thought that possibly provided a fertile environment
for Dennison's intellectual direction. The first of these was Taussig's preoccupation in
his lectures with the importance of "non-competing groups" in the determination of
wages rates and values. Taussig was critical of Ricardo with regards to the notion that
factor mobility, competition and free exchange were widespread, and so goods
exchanged in proportion to the quantity of labour contained in them. In this conception,
wages are determined by "different degrees of attractiveness". By contrast, Taussig
believed that free competition between labour was unlikely because labour was "more or
less fixed" since there are a number of obstacles to perfect mobility. "Such obstacles", he

said, "are those of inborn aptitudes and inaptitudes, the need of long or expensive training...monopolies of skill and capacity...and so on" (Taussig cited in Samuels 1992b, 189-190). This element of Taussig's thought regarding the 'semi-fixity' of labour inputs is akin to Dennison's later concern with 'maintaining' labour in the face of cyclical disturbances due to the sunk costs of labour turnover in the guise of foregone investment in firm-specific education and training.10

Behind Taussig's concern with the idea of non-competing groups lay a deeper appreciation of the importance of wider social forces and power and hierarchy in economic affairs. As Samuels (1992b, 198) has noted:

Problems of power and order were discussed quite directly, especially in the case of Taussig, through the concept of non-competing groups. Taussig thereby raised serious questions as to the operation of the economy and the realism and relevance of economic theory: for example, what is the relevance of the pure theory of the market in the face not of 'market imperfections, but of inequality and hierarchical elements?

This appreciation of inequity and his sympathy for labour comes out clearly in *Wages and Capital* where Taussig himself noted of the hired labourer, that

> his position does indeed show that the ownership of wealth in modern societies is very unequally divided, and in so far is not consistent with that ideal organization which, under ideal conditions, would doubtless bring the maximum of human happiness (Taussig 1896, 80-81).

And further:

> As the industrial situation stands, ownership of wealth is in fact unequally divided; the greater part of the capital and of the steady accruing wealth of the community is owned by a comparatively small number of active capitalists... Hired laborers are dependent for their money income, and therefore for their share of real income, on a bargain with those owners of capital (*Ibid.*, 320).

Again, this may have made an impact on the young Dennison and his later concern with power in the corporate enterprise, with the plight of the working class, and with the maldistribution of wealth in US society.

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10 These matters will be discussed in Chapter Four.
In fact there is much in *Wages and Capital* akin to Dennison’s own economic thought suggesting that his studies under Taussig provided a fertile intellectual environment conducive for Dennison’s developing sense of institutionalism. To highlight but a few points of similarity, and so, of potential importance, one could begin with Taussig’s attention to the pivotal role in the ‘wages fund’ of “the active manager of industry, the engineer, and the inventor” where earlier economists focused all but entirely on the payment of labour out of the wages fund (Taussig 1896, 33-35). Also Taussig’s insistence—in the context of the relation of wages to capital—that capital was “inchoate wealth” or “all the possessions that do not yet serve human wants” with “nothing to do with money or money wages, or with the hiring of labourers by employers, or with the wealth of individual capitalists” (Ibid., 36; 40-45). In this context, higher wages depended not so much on the individual fortunes of capitalists as they did on constant and efficient output—“(l)arger (wage) payments by employers would not avail, unless there were more commodities ready for purchase”—which, in turn, depended on “the doings of the whole array of employers and middlemen and lenders who collectively form the active managers of industry “(Ibid., 47; 65; parentheses added). Taussig elaborated on the first of the latter points by highlighting that in the final instance, higher wages for workers depended “on whether the consumers of the goods they make can and will pay for them” and that “a real, steady, and permanent rise in wages can be got by such a group only if the permanent conditions of the market—that is, of ultimate demand—are favourable to them (Ibid., 106-107). Alongside Dennison’s enthusiasm for scientific management and his involvement in the business stabilisation movement, both of which sought to ensure low-cost and steady output, Taussig’s recognition of the importance of maximum output for wealth creation and of “ultimate demand” in maintaining and advancing purchasing power, may have been influential in Dennison’s later concern with maintaining output and employment to fuel the fires of effective demand in the wider economy.11

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11 These matters will be discussed in Chapter Four.
Also potentially decisive for Dennison’s later concerns was the fact that Taussig was well attuned to the industrial facts of life in late 19th century America (and elsewhere) that “the body of persons whose judgement and discretion determine how the gross money income shall be used, and what part of it shall be turned over to laborers, is much larger then the group of immediate employers” and who are, in fact, “controlled, in greater or less degree, by his relations with this large and complex body of lenders and middlemen” (Ibid., 64). In contrast to the “employing capitalists” directly or indirectly active in business management, this body of “idle investors” who own capital and derive an income therefrom, “take no direct part in its management” (Ibid., 65). Taussig’s realisation of the decisive role played by absentee or idle investors in managerial corporate policy—the fact that their “judgement and discretion” held sway in managerial decision-making—may have reinforced Dennison’s familial distrust of absentee owners and his policy of ‘buying them off’ to free up active managers in deciding the direction of company policy.\(^\text{12}\)

And finally, mention must be made of Taussig’s thought vis a vis unorganised labour’s relatively weak bargaining position in the employment relationship—“(i)f the worker stands alone...he bargains at great disadvantage”. Taussig was of the view that only through collective bargaining could labour bargain with capital on equitable terms—“if he is banded with his fellows...he bargains to the best advantage” (Ibid., 79). He noted further that

\[(t)he\ strength which the\ trades\ union\ gives\ the\ hired\ laborer\ in\ dealing\ with\ his\ employers\ was\ not\ doubted\ even\ in\ the\ days\ of\ greatest\ faith\ in\ the\ natural\ laws\ which\ were\ supposed\ to\ regulate\ economic\ phenomena\ in\ general,\ and\ wages\ in\ particular\ (Ibid.,\ 80).\]

Once more, this is remarkably similar to Dennison’s later insistence on the importance of workers joining unions of their own choice to collectively bargain with managers if labour markets were to operate effectively and equitably.\(^\text{13}\)

\(^{12}\) These matters will be discussed in Chapter Two.

\(^{13}\) These matters will be discussed in Chapter Three.
In light of the foregoing overview of Taussig’s thought and the views of colleagues and admirers, it can be seen that, like Marshall, Taussig possessed a good dose of institutionalist sentiment and this might well have permeated his Harvard teaching. In this context, he may have actually provided an atmosphere more conducive to Dennison’s institutionalist leanings than Dorfman allows for in his treatment of Taussig. This is even more plausible given that Taussig, like Dennison, was a member of the American Association for Labor Legislation – which, as will be seen in Chapter Four was a virtual ‘hotbed’ of institutionalist ferment. Also lending a degree of support to Taussig’s apparent institutionalist hue was his firm belief in the duty of economists to shape and evaluate public policy and to guide public opinion as is reflected in his public service career as head of the US Tariff Commission, his role as personal adviser to Woodrow Wilson, and his participation (like Dennison) both in the war planning experience in the Price-Fixing Section of the War Industries Board and in Wilson’s Industrial Conferences of 1919-20 to curb labour discontent. Taussig, like Dennison, had much sympathy for the working class and was of the view that class conflict emanated from the failure by management to exercise what Dennison would later call “business professionalism” in the sense of their responsibility accompanying wealth and power and their failure to properly understand workers’ interests and the forces at work motivating them (Samuels 1988, 596).

In terms of Dennison’s embrace of scientific management, his introduction to these principles came via the appointment of Edwin Gay, who was sympathetic to scientific management, to the Harvard Economics Department in 1902. A foundation member of the Taylor Society—an organisation committed to the enrichment of the scientific management philosophy of F.W. Taylor—Gay struck up an acquaintance with Dennison and the two had discussions prior to the opening of the new Harvard Business School over which Gay was to preside as the first Dean (Reagan 1982, 154). J.K. Galbraith recently confirmed this point, positing that Dennison came to an appreciation of scientific management as a result of his Harvard contacts with Gay at the Business
School and Felix Frankfurter at the Law School. Interestingly for later developments, it was Gay who recommended (the then young) Galbraith to Dennison as an in-house tutor in economics and thus, set into motion the close friendship they were to sustain until Dennison's death in 1952 (Galbraith 1996).

**Dennison at Harvard Business School under Dean Gay**

With the opening of the Harvard Business School (HBS) in 1908, Dennison’s friend Edwin Gay, was appointed as the first Dean. Gay managed to ensnare the founder of the scientific management movement, F.W. Taylor, and his inner circle of acolytes, as guest lecturers at the new business school. This group included Henry Gantt, Morris Cooke, H.K. Hathaway, and though he was not yet a formal member of the Taylor Society, Henry Dennison. Dennison, however, became more than just a guest lecturer. When scientific management expert C.B Thompson took over the course in 'Industrial Organization', he arranged for Dennison to be a part-time lecturer in aspects of that course. Dennison delivered lectures at the school from 1912 to 1923 (Gay Papers – Baker Library; Office of the Dean, Correspondence, Baker Library).

Earlier, Gay arranged for Dennison to deliver an address at the opening of the School, in October 1908. Entitled 'The Harvard Graduate in the Business World', Dennison began the address noting that the technical advancements of science have, more often than not, followed advances in scientific education. Yet within scarcely a lifetime, the same technological progress has created a wholly new industrial system involving complex and vital problems of the relation of labor to capital and of the conservation of human and natural resources which we have had to meet without any educational preparation whatsoever (Dennison 1908, 1).

He then outlined his views on what should constitute a business education. Among the courses which he believed should come first, was economic and business history in order that an insight be made into "the true reasons for the progress which has been

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14 It should be noted that Taussig was also an important figure in the setting up of the Business School, chairing several committees assembled to attract funding and map out the curriculum (CopeLand 1958).
15 Unfortunately, the manuscripts of these lectures were not in Dennison or Gay's personal papers at Harvard.
made, together with a study of many successful and unsuccessful firms, and the causes which affected their rise or fall" (Ibid., 6). He stressed that in this course

emphasis should be laid upon success in advancing 'service to industry' rather than upon mere success in making money, which the past has taught us can be made by wrecking industries as well as by building them up (Ibid., 7).

As a second course, he prescribed a panoramic study of present forms of business organisation "which should be descriptive rather than critical", gaining a knowledge of the subject before "practical work in the field" from whence would come, theorising and critique (Ibid.). He also suggested technical courses on general financial questions, distinctions and relations between capital and labour, the course of prices and the value of money, seasonal fluctuations, and panics and depressions (Ibid.).

As part of the instruction in the principles and practices of scientific management, formally administered by C.B. Thompson (and later by his student, H.H. Farquar, both of whom were members of the Taylor Society) under the banner of 'Industrial Organization' (later called 'Industrial Management'), students heard lectures from the leading exponents of the Taylorist creed and visited many enterprises where said philosophies had been successfully applied. Dennison's company, DMC, was visited by students and was the subject of many Harvard case studies. Dennison's lectures from 1912-1915 concerned the broad topic of 'Labor', whilst in 1916, he delivered lectures on 'Factory Management' and 'Business Policy'. In 1917 and 1918, he spoke about his company's 'Experiment in Industrial Partnership'. After his war planning experience he returned in 1920 to teach 'Business Policy' again. In 1921, a series of lectures were given by other Taylorists including the Society's managing director, H.S. Person, and Dennison's friends and later co-authors on a book on profit sharing, Henry Kendall and Gorton James. Dennison gave his final lectures, as far as the archives reveal, in 1923 under the revamped 'Industrial Management: Factory Problems and the Taylor System' course. His subject herein was 'Personality v. System'. Other members of DMC also

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16 This is significant because the Business Policy course later became a focal point in the intellectual birth of Strategic Management as a discipline. Incidentally, Dennison's Taylorist colleague Arch Shaw, a Chicago publisher, founded this course in 1911.
gave lectures on aspects of their work, whilst noted engineer Sanford Thompson gave a lecture on 'Dennison Manufacturing Company Methods' in the same year (Gay Papers, Baker Library; Administration Subject Files, Baker Library). It would seem that Dennison, like many of the other 'leading lights' in the scientific management movement, played a pivotal role in business education at the Harvard Business School under Gay's tutelage.17

**Dennison the Scientific Manager**

Dennison's belief in the scientific virtues of managerial betterment led him towards a close sympathy with the Taylorist way of thinking. Duncan and Gullett (1974, 142) have maintained that

> Dennison, perhaps more than any one save Frederick Taylor himself, seemed to fully comprehend and appreciate the mental revolution presented by scientific management...His devotion to the underlying philosophy which demanded the quest for manager-worker cooperation...was quite unusual...and clearly differentiated him from most of the other writers of the period.

Whilst Dennison's son James similarly highlighted that

> (t)he smooth flow of production advocated by Frederick W. Taylor (1856-1915) required a co-operative effort between management and labor similar in principle to that co-operative effort which the Dennisons had insisted upon between marketing and manufacturing (Dennison 1955, 12).

And further, that we must

> bear in mind that Henry Dennison's interests after 1912 were the logical outgrowth of interests developed in his prior business career. His earlier preoccupation, not with the rough-and-tumble of the market place, but with corporate structure, with integrated organization, with rationalized industrial process and harmonious management-labor relations as taught by Frederick Taylor, would lead him to approach business problems as a scientist and to stress profession rather than profit as the true goal for business management *(Ibid., 14)*.

Dennison's belief in management as a profession remained a focal point of his thinking throughout his lifetime and represents a possible thesis topic in management history in its own right.

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17 As a matter of interest, Waddill Catchings, one half of the (William) Foster and Catchings duo, taught the course on 'Labor' in 1921. Other appointments of note include Wesley Mitchell, who lectured on economics in 1908-1909, and Adolph Berle who lectured on finance from 1926-28.
Following the death of his Uncle Charles in 1912, Dennison became Treasurer of 
*Dennison Manufacturing*. From this time on, as Vice-President and then Director of the 
Boston Chamber of Commerce, Dennison formed close associations with prominent 
Boston scientific managers like Henry P. Kendall (later a Taylor Society President) and 
the Filene Brothers, and he joined the fledgling Taylor Society in 1917 over which he 
would preside as President in 1919. At around the same time, he also joined the 
American Economic Association and the American Association for Labor Legislation; 
participated on the Massachusetts Commission on Old Age Pensions in 1913; and was 
Chairman of the Massachusetts Committee To Promote Work in 1915 and also Chairman 
of the Water Commissioners in the Framingham Water Company. As Reagan (1982, 
154) has noted, "(w)hile the corporation experienced the fastest economic growth of its 
history from 1916 through 1920, Henry Dennison expanded his own work beyond the 
confines of his business". In this entrance to public service, Dennison followed the trail 
of Taylor and his disciple, Morris Cooke, both of whom were very active in local and 
municipal government bodies attempting to combat the corrupt and monopolistic 
practices of public utilities.

It was during the first decade of the twentieth century that the scientific 
management (SM) movement made its initial impact on the American industrial scene. 
The surfacing of F.W. Taylor's division-of-labour and piecework systems in the late 
1890s resulted in scattered attention being paid to this new approach to industrial 
management. However, it was not until the famous Eastern Rate Case of 1910-1911 that 
the movement began to enjoy widespread popularity. Exponents of SM argued that most 
businesses were not as efficiently managed as they could be and would benefit from 
more systematic planning and routing in production, standardising and simplifying 
products, training workers for more than one task, and applying functional management 
planning and continuity of operation to personnel management and marketing.

In 1912, an informal Society for the Promotion of the Science of Management 
(formalised as the Taylor Society in 1915 after Taylor's death) was formed. This group 
sought to extend their mentor's emphasis on factory processes by turning their attention
to the 'human factor' absorbing into Taylorism an interest in personnel management, employee betterment and industrial psychology. However, it should be noted that Taylor was interested in issues outside the plant, and had an appreciation of the human relations' aspect of production (Locke 1982). Like Taylor, his disciples saw unemployment as a form of industrial waste and an underlying source of inefficiency such that it was amenable to the microeconomic policies of scientific management. In other words, they saw unemployment as an economic ill that could be ameliorated by business stabilisation (Metcalf 1972, 35-36; McQuaid 1975, 77-78; Alchon 1985, 16).

Whilst instituting his factory-based reforms and joining the Taylor Society Dennison gained significant exposure to wider social and industrial questions. In the years 1912-1916, as Director and Vice-President of the Boston Chamber of Commerce, Dennison was very active in its affairs, particular those affecting labour relations. In 1913, he met General Electric executive Magnus W. Alexander whilst serving on the Massachusetts State Pension Commission. The latter was the future founder of the National Industrial Conference Board, and at the time of his meeting with Dennison, Alexander was completing pioneering studies estimating the extent of labour turnover in American industry (Metcalf 1972, 82-84). This association moved Dennison to action: he promptly improved worker selection, training, and placement standards at his firm. Strong efforts were also made to smooth out irregularities in production schedules and thereby avoid layoffs. In 1914, the DMC established an Employment Department which "collected data on prospective employees, wrote a training pamphlet for new employees, filed annual reports on every employee, and kept track of the firm's labor turnover with Taylorite efficiency" and in 1916, the DMC established the first private unemployment insurance fund in the US (Reagan 1982, 154). Dennison, in short, became an integral figure in the emerging stabilisation movement to be discussed in more depth in Chapter Four.
Dennison the man: his 'life philosophy' and ethical beliefs

Dennison was not a religious man per se. He did not reject any religious beliefs; in fact, he was curious about and delved into many religions, but he did not accept them as such. He was an agnostic – a Humanist with ‘Christian tendencies’. He never attended church, abhorring the moral and social pretensions that accompanied organised religion. Yet having said this, he acted as a type of peripatetic lay minister preaching in various houses of worship be they Hebrew temples or Christian Science churches. Dennison’s ethical beliefs, in the context of his practical work and his economic thought, surface clearly in three unpublished papers he authored in 1924, 1926 and 1927 and also in his third monograph Ethics and Modern Business published in 1932. In both his practice and in his writing, he propounded an ethical philosophy that underlay much of his managerial actions, not just in his dealings with customers, competitors and labour, but in all his life’s work (J.T. Dennison 1999).

Dennison believed that for humans to do good and live a virtuous life they had to want to; and for them to do so of their own volition rather than because of their fear of some divine or metaphysical wrath, their self-interest had to be intimately interwoven with their desire to do good by others. Forward looking self-interest maximisation, he believed, which included the respect of one’s neighbours in its definition, almost wholly coincides the ethical demands of civilised religions. In this context he believed that the selfless sacrifice demanded by most organised religions was utopian:

They believe that to take the element of sacrifice out of good behaviour takes something out of its value and significance. They feel that duty must be disagreeable and costly if it is to claim any special glory. ...But how can man, as a matter of fact, make a sacrifice? If he is to act counter to his desires, he must somehow do what he doesn’t want to do before he can lift a finger. Clearly this nonsensical sentence shows that we are to use the word ‘want’ in several senses; or rather, it is clearer to say that there are several men all combined in one who are wanting different things at the same time. The question of importance is what part of the man is it that wins out (Dennison 1924b, 21-22).
And elsewhere:

How can a man do his duty, – follow his ethical code unless some part of him wants to, finds it to his desires and interests to? Isn’t the old conflict of duty versus inclination more exactly a conflict of the inclinations of the deep-seeing, wide-seeing, far-seeing part of any man with the inclinations of his immediate, narrow and shallow part? (Dennison 1926g, 7).

His view of human nature, of which more will be said in the next chapter, challenged the singularity of mainstream economics’ assumption of atomised, self-interested optimisers with little or no regard for the feelings of others. Instead, Dennison believed that while “the desire to be regarded as a worthwhile person among persons” was not the only deep motive in our complex of desires (he still accepted a vital role for self-interest) it was certainly universal and perhaps even the most powerful. For all practical purposes, he believed, there really is no such thing as an ‘isolated self’ for “we are centres of relationships with other men and things – focal points of social forces” (Dennison 1924b, 9-11). Accordingly, he believed that all humans with whom we have contact must be regarded as neighbours and that the more permanent this contact, the more necessary for us to concern ourselves with their welfare. As a corollary, he believed that the greater our opportunities in life the greater the burden of responsibility on us to serve our neighbours.

In all the years A.D., no more inclusive rule for Christian guidance has been given than the commandment of Jesus: ‘Love thy neighbor as thyself’. I shall assume that the canons of behavior devolving from this principle would aim to develop the virtues which cluster about the idea of brotherhood. You will notice that in the words ‘Thou shalt love thy neighbor as thyself’, and in the idea of brotherhood, self-interest is not wholly excluded. Rather, it is taken for granted that the ordinary transactions of life will be based on some such motive. The injunction is to extend this same sort of interest to our neighbors, and in the same degree that we apply it to ourselves (Dennison, undated, Memorial Booklet 1952, 7).

This notion of serviceability was manifest in his pre-New Deal attitude to government intervention and regulation wherein he postulated that to preempt government paternalism and involvement in business affairs, the business community and the ‘profession’ of management should develop strong service motives not only to shareholders but to employees and the wider community (Duncan & Gullett 1974, 133-134).
It also infused his ethical approach to business. From his position on the Ethics Committee of the US Chamber of Commerce, and applying his philosophical view of human nature, Dennison urged his fellow businessmen to open a 'goodwill account' on the liability side of their ledgers. By this he meant them to cultivate a good name, a reputation, or "the composite opinion of us in the minds of that part of the business world which concerns or may concern us". This did not reduce to "paternalistic benevolence", which he abhorred, "but to acquaintance, confidence and respect". He believed that what businessmen wanted in business was respect, that this would nourish continuous business relations with a stable group of customers in the economic sense of the word 'goodwill' resulting in mutual profit, and that to get it, that they must accord with the Christian ethic (Dennison 1924b, 16; 1926g, 6). And just as this 'external goodwill account' was necessary for harmonious and mutually beneficial relations, so too should be the 'internal goodwill account' with employees: "If it is good long-time business to work for the enhancement of the respect our fellow business men hold for us, should we not also expect advantage from the respect of our fellow employees?". In this context he urged some sense of citizenship of industry, for "with employment irregular and status inferior, how can deeper impulses to produce...get a start? (Dennison 1926g, 6-7).

As will be seen in Chapter Two and Three, these ideas were at the heart of Dennison's organisational and labour economics. To set the scene for his thought on these matters and to illustrate how his ethical philosophy shaped his thinking, it is illuminating to overview his third published monograph, *Ethics and Modern Business* (1932) which was based on a lecture he gave at U.C. Berkeley as part of the Weinstock Foundation's 'Lectures on the Morals of Trade'. Traversing the field of ethical philosophy, chiefly that derived from biblical sources, he stated that to date, ethical traditions in the business world were "vague, confused, and contradictory". The one standard in common use was grounded in "common intuition" or upon "commonsense", that being that business be conducted for the good of society or for the "greatest good of the greatest number". For his part, Dennison found this ideal to translate to
(p)rogress towards the fullest use and growth of each man's powers in the service of his fellows, and toward the enjoyment of such pleasures as do themselves contribute to the refreshment or enhancement of such powers (Dennison 1932e, 3-5).

From his excursions in the fields of biology and psychology (to be discussed in the next chapter), Dennison believed that this ideal was an *innate biological instinct* and that no member of the species could find real happiness without some expression of or devotion to the service of their fellow humans (*Ibid.*, 6).

This is reminiscent of Veblen's 1898 essay, 'The Instinct of Workmanship and the Irksomeness of Labor', wherein he ridiculed "received economic theory" for its assumption that "men desire above all things to get the goods purchased by labor and to avoid the labor by which the goods are produced". Veblen believed that if this held true, then humans were unique in the animal kingdom as being the only species that does not have an instinct of self-preservation to maintain the life of the species by productive labour (Veblen 1964, 78-79).

This ideal of serviceability to humankind, "that each business man must learn to look beyond the bridge of his own nose and beyond the present moment", Dennison continued, had been manifest in the code that he and other like-minded progressive businessmen attempted to establish as standard practice throughout the 1920s. In other words, they must "regard the interest of others in the trade and in other trades, the interests of his customer, and the interests of the future as well as those of today" (Dennison 1932e, 17). Reminiscent of the later 'systems' approach to organisations, Dennison reasoned:

A business corporation is in that difficult middle position of being itself a social group and at the same time a unit in a larger social group. It has social and hence, potentially ethical relationships up, down, and crosswise. Each man in the company has his list of duties both as an individual and as a member of the organization which he must perform with some regard to survival as well as to the good of the whole; and the company must consider its duty to itself, to its social environment, and to its employees (*Ibid.*, 20).

In this context, he again criticised the "almost exclusive emphasis upon that hypothetical abstraction - the economic man" and lamented the slow growth in applied industrial
psychology, both of which hampered a better understanding of the motives controlling the attitudes and behaviour of employees:

The circumstances under which an employee can build up anything resembling a sense of loyalty to the organization he is working with must be largely controlled by the degree to which the organization and his place in it can give him a sense of personal significance...the so-called pure economic motives can be best understood if thought of more as a means than an end (Ibid., 30-31; emphasis added).

The widely espoused ideal of business service to society, he concluded, was for the most part "pure camouflage". No one who honestly knows business, he continued, "can pretend that it has anything remotely resembling a corporate unity of purpose, or that its pure impulse to serve mankind seriously modifies the individual struggle for individual gain in more than one-tenth of one per cent of the cases" (Ibid., 54). In this regard, his central theme is that despite the voluntary appointment of "umpires" in the competitive "game" of business and the long-cherished notions of voluntarism and business self regulation, reflected by the Hoover administration and his own involvement in the business stabilisation movement, "the field for purely voluntary action in the business field is a limited field". He continued:

It has been demonstrated in a variety of ways that business men through voluntary effort rarely succeed in covering ten per cent of the necessary field of action and seldom get as high as three per cent. If we are interested to look beyond the bare beginnings, we must be willing to imagine a referee with a power and influence greater than that which any group from the business world would be willing to grant him and maintain in him (Ibid., 58; emphasis added).

This excerpt is significant for later developments, particularly Chapter Five, because it reveals, that by 1932 Dennison had begun to entertain the possibility of a more positive role by the state in economic affairs.

**BibliographicalOverview**

Dennison was a high profile businessman for almost half a century, not an academic economist. His association with the economics academy was maintained via his activities and contacts at Harvard – on both sides of the Charles River, in the Economics
Department and in the Business School – and via his contacts outside Harvard with Wesley Mitchell and John R. Commons. Emanating from his company policy and his various stints of public service was a corpus of economic thought, published and unpublished, that represents a unique and influential contribution to economic thought. As stated, the central task of this dissertation is an examination of this corpus in a bid to demonstrate that Dennison was thoughtful and articulate enough in economic matters to have made a meaningful and enduring contribution to the institutionalist tradition.

Dennison’s substantial opus consists of unpublished papers held in the Baker Library at Harvard Business School; contributions to academic and non-academic periodicals; contributions to edited monographs; and a number of newspaper articles. In addition, and relatively unusual for a businessman, he authored five monographs, three of which were joint publications and two he wrote by himself. In order of publication, these books were *Profit Sharing and Stock Ownership for Employees* published in 1918 (and reprinted in 1926) written with Harvard economists Gorton James and Edwin Gay, and Taylorist businessmen H.P Kendall and A.W. Burritt. His magnum opus, *Organization Engineering* was published in 1931, and was followed by a smaller volume, *Ethics and Modern Business* in 1932 explored above. In 1938 he collaborated with John Kenneth Galbraith on *Modern Competition and Business Policy* and also on *Toward Full Employment* which, though it bears the names of Taylorist businessmen Lincoln Filene, Ralph Flanders and Morris Leeds, was actually drafted by Galbraith. A large part of his published contribution to the periodical literature was in the *Annals of the American Academy of Political and Social Science* and in the *Bulletin of the Taylor Society*. He also contributed two papers to the *American Economic Review* in 1930 and 1951, one small discussion paper in the *Journal of Economic History* in 1943, one paper to the *Journal of the American Statistical Association* in 1922, and one paper to the *American Political Science Review* in 1932.

For the purpose of overviewing this body of economic thought and following the overarching design of the dissertation as a whole, Dennison’s contribution to institutionalism can be divided into four major subject areas, which, given his status as a
practitioner corresponds approximately to the major socio-economic events and activities in his life. It must be emphasised again that it was this tension between Dennison’s dual roles as a practitioner and theoretician—his praxis—that shaped and steered Dennison’s attitudes on economic and management matters towards institutionalism. In other words, in typical institutionalist fashion his interest in theory was driven and shaped by his observed/lived experience in the evolving contours of American political, social and economic life.

The four key areas examined and to which Dennison made a meaningful contribution are: management/organisation economics (Chapter Two); labour economics (Chapter Three); business cycle theory (Chapter Four); the macroeconomic policy debates of the 1930s revolving around the interconnected issues of Keynesian-style demand management and New Deal national economic planing (Chapters Five and Six). Dennison also played a pivotal role in the intellectual ‘conversion’ of Galbraith to heterodox economics and in his subsequent exploration of the logic of US capitalism (Chapter Six).

Given Dennison’s background as the managing director of a medium-sized manufacturing concern and his public service experience during the First World War and in President Wilson’s First Industrial Conference of 1919, it is not surprising that the initial but enduring focus of his economic thinking was management or organisational economics, and labour economics and industrial relations. From his first ‘academic’ publication in *The Annals of the American Academy of Political and Social Science* in 1915, ‘The Principles of Industrial Efficiency applied to the form of Corporate Organization’, and alongside a plethora of unpublished papers on labor turnover, collective bargaining, and his perceptions of Wilson’s Industrial Conference, Dennison’s writings up until the early 1920s were concerned with problems of business and labour management, particularly with removing the control of absentee owners over company policy through redesigning corporate structure. The focus of both his 1915 and 1920 papers in *The Annals* were along these lines and with improving efficiency by increasing incentives for the active generators and implementers of company policy, the
management stratum. In this context, he was a pioneer in profit sharing and employee stock ownership, the focus of a joint volume published in 1918.

In the 1920s Dennison refined these ideas as a result of his involvement with institutions such as the American Management Association and the Bureau of Personnel Administration and they took the form of papers on personnel management, organisational psychology, human motivation, organisational design, and the ethical and professional obligations of management that remain as cogent today as they were at the time of his writing. Infusing his thought during this time was a constant questioning of mainstream economists' conception of *homo oeconomicus* and his insistence that humans were motivated by more than pecuniary gain highlighting that they are creatures of habit and custom and that their motivation was, in addition to monetary gain, also influenced by a sense of belonging to groups and organisations.

The culmination of these ideas was Dennison's magnum opus, *Organizational Engineering* (1931). In some ways anticipating the so-called Human Relations 'school' in and around the Hawthorne Studies initiated in the 1920s but reaching fruition in the 1930s, this volume was an insightful analysis of teamwork, leadership, and motivation in organisations. A key outcome was Dennison's recognition of the existence of *informal groups* and their important influence in output restriction but when properly motivated with non-financial incentives, their potential capacity to inculcate loyalty and goal congruence in organisations. So impressed with his grasp of the economics of managing, Dennison was chosen by Hoover to contribute the survey chapter on management in the 1929 *Recent Economic Changes* volume.

It is difficult to disentangle Dennison's labour economics and his conceptualisation of the US industrial relations framework from his management and organisational economics, his pioneering efforts in personnel management and profit sharing. Always interested in and sympathetic to the plight of labour, Dennison's economic thought in this regard was brought into focus as a result of his involvement with President Wilson's First Industrial Conference assembled in the midst of the acute postwar industrial disputation most publicly manifest in the Great Steel Strike of 1919-
20. In essence, and despite being a capitalist-manager, Dennison supported labour's striving's for the right to organise and bargain collectively in a bid to have an effective voice in management and company policy. In his unpublished conference resolutions Dennison reasoned that industrial progress and maximum production required an equality of bargaining power and an industrial partnership between labour and capital. Labour should be free to organise either internally or externally or else labour markets would not function properly. He wrote extensively on the virtues of company unions or consultative committees and management sharing for the joint determination of company policy. In this context, Dennison was visited by John Commons in 1919, who applauded Dennison's efforts in industrial democracy and later, in his 1934 Institutional Economics, Commons placed Dennison at the end of an intellectual continuum from Marx to Veblen, from Veblen to F.W Taylor, and from Taylor to Dennison in terms of their treatment of 'managerial transactions' in the context of the labour process.

Dennison’s writings on business cycle theory began in earnest with the postwar cyclical downturn of 1920-1921 and with his involvement in the ensuing Unemployment Conference (1921) and Business Cycle Report (1923). Owing to his pivotal role in the business stabilisation movement and as a consequence of his correspondence with Gay and Mitchell at the fledgling National Bureau of Economic Research—he had worked with both as part of the Economic Advisory Committee under Hoover—Dennison published widely on different aspects of managing business cycles at the level of the firm, including a contributory chapter in The Stabilization of Business (1923) alongside Mitchell, Commons, Edwin Seligman, and Irving Fisher. The essence of his business cycle theory was as follows: reasoning that business cycles were largely though not exclusively a result of business decisions, Dennison theorised that more socially minded and better informed decisions at the level of the firm, in conjunction with public infrastructure spending, could play a vital role in smoothing the ebb and flow of broader economic activity. As will be demonstrated later, this was a view that was deeply influential on the economic thought of pioneer business cycle analyst, Wesley Mitchell.
Dennison's contribution to the macroeconomic policy—particularly New Deal economic planning—discourse of the 1930s, prompted as it was by the Great Depression, initially took the guise of unpublished papers and a collaborative volume alongside institutionalist Walton Hamilton and AT&T statistician Malcolm Rorty in *The Worldwide Depression: Ways Out* in 1931. In the latter volume, Dennison drew on his business stabilisation experience of the 1920s and mooted the efficacy of microeconomic decisions—particularly the use of private unemployment insurance in maintaining purchasing power—for the stabilisation of macro activity. In other discussions—mostly unpublished addresses in the early to mid 1930s—his outlook was decidedly 'proto-Keynesian' as he urged fellow employers to maintain the wages of that part of society with the greatest frequency of consumption: that of workers. He also launched a staunch attack on what he called "lazy fairies" and their espousal of competitive individualism, proffering a form of cooperative and consultative planning between Congress, trade associations, and organised interest groups in the form of a National Economic Commission. To some extent, these ideas were realised with the consultative planning network assembled under Roosevelt's New Deal.

With his entry into the 'corridors of power' in these same New Deal planning bodies—the Business Advisory and Planning Council, the Industrial Advisory Board, and the National Planning Board—Dennison wrote further, again largely in unpublished addresses and manuscripts, on national economic planning, the destructive nature of unfettered competition, and on business-government relations. In one such manuscript in 1934, Dennison criticised cut-throat competition and below-cost selling as resulting in overcapitalisation and a wasteful use of resources, especially labour which bore the brunt of business feuding and failures. He advocated the use of price floors and open pricing to curb destructive competition and encourage business cooperation. Dennison furthered these ideas in an address in 1935 where he stated that since business governs the life of its workers, it is a government within a government with like responsibilities. Contrary to laissez faire philosophy, business is just one of the many organs making up society, and so, must be managed by government in the best interests of the body-politic.
It was during this period that Dennison hired Galbraith as tutor-in-residence and the two engaged in a lively debate over the cause of the Depression, which ultimately led to Galbraith's embrace of a more heterodox world-view of economics. This intellectual debate resulted in their collaboration on two monographs, *Modern Competition and Business Policy* and *Toward Full Employment* both published in 1938. The first of these volumes largely represented Galbraith's pre-Keynesian commitment to the mainstream explanation of the Depression; namely, the underproduction and resulting unemployment of resources emanating from the oligopolistic and monopolistic tendencies of US business. This view ran counter to that of Dennison who, anticipating Keynes, believed the Depression was the result of underconsumption symptomatic of a maldistribution of income: a skewed flow towards what he called the savings stream largely occupied by more affluent members of society. It is argued that this volume, though decidedly blinkered with an orthodox hue, actually contained the seeds for Galbraith's later foray into the inner logic of US corporate capitalism.

In the second of their joint volumes, which by his own admission Galbraith conceived as a correction of his earlier error, Dennison (again reminiscent of Keynes) refuted the capital market-clearing function of interest rates postulating that a savings 'leak' existed in the circular flow of income resulting in hoarding and underconsumption, and so, a reverse multiplier effect on aggregate activity. Accordingly he implored the fiscal authorities to shift taxation away from income flowing into spending to income flowing into savings in the guise of reduced sales taxes and more progressive taxation of income.

**Conclusion**

This chapter has overviewed important details of Dennison's life and his economic thought as a preparatory exercise for the central task of the dissertation: an exploration of Dennison's economic thought for the purpose of unearthing his unique and enduring contribution to institutionalism and American political economy. The chapter attempted to highlight, among other things, those elements of Dennison's Harvard education and business life and his personal and ethical beliefs, that developed his institutionalist bent.
In the following chapters, closer attention will be paid to the precise thematic direction and content of Dennison’s institutionalism, driven as it was by the evolving contours of 20th century American social, political, and economic life.
During the first two decades of the twentieth century, many American business leaders became aware of the explosive potential inherent in the smooth functioning of the industrial system. Riding on the waves generated both by the Progressivist push for socioeconomic reform and the rise of scientific management, business leaders came to realise that the very force of capitalist acquisitive instincts, consciously and intelligently conceived and managed, could replace reformist ideals and labour agitation as the engine of material progress. The efficacy of intelligence, rather than acquiescence, was propounded as the best means to manage human relations and the production process. An 'enlightened self-interest' among businessmen, it was believed, would guarantee steadily increasing levels of employee welfare, consumer satisfaction, and national prosperity (McQuaid 1977, 79). Furthermore, these 'captains of industry' believed that "intelligent collaboration between business, government, and organised labor was an attainable goal". These business leaders have come to be known as corporate liberals (McQuaid 1978, 342).

Prominent among this group of business leaders was Henry S. Dennison. During the first half of the twentieth century, Dennison’s private and public activities demonstrated an ambitious desire to improve the socioeconomic and industrial procedures of capitalism. In a manner reminiscent of institutionalists like Commons and Mitchell, Dennison’s varied experiences ignited and shaped his theorising on economics and management matters. Given Dennison was at once a practising manager and an economic
analyst, a focus on his thought highlights the nexus between management and economics, and the pivotal role of business management in the generation of competitive advantages and wealth for firms, economies and nations. The present chapter focuses on Dennison’s management and organisation economics which, given his position as a manager of a medium sized manufacturing concern, was the initial and enduring and also the most original and innovative focus of his economic thought.

The Genesis of Dennison’s Management Economics: Dennison’s Early Activities at the Dennison Manufacturing Co., 1899-1917

In the late 1890s after the Dennison company’s business had outgrown its main plant at Roxbury, manufacturing became centred at a new plant at Framingham, Massachusetts where Dennison was to do his most important work after he joined the company in 1899. Beginning as a truck hauler in the Wax Department of the DMC, Dennison’s Harvard education and family connections placed him in an assured road up the rungs of the Dennison managerial ladder. In 1901 he became foreman of the Wax Department. In 1906, with the retirement of the New York manager, effective power was transferred to his uncle Charles S. Dennison, Treasurer and purchasing agent, and to Henry Dennison who had recently been appointed Works Manager as a consequence of his development of new cost and accounting procedures. In 1909, the Board elected Henry as one of the Directors, and from 1910-1913, he served as purchasing agent, becoming Treasurer in 1912 and President five years later (Reagan 1982, 150).

Exploring this meteoric rise in a little more depth, it is useful to sum up the state of play at the company when Dennison entered its employ in 1899. Dennison’s son James, in an address to the Newcomen Society in 1955, did this eloquently:

By way of summary in comparing 1899 with 1878, the year of incorporation, sales were slightly over $2,000,000 against $466,000; net profits, $231,000 against $31,000; and capital and surplus, $1,371,000 against $150,000. The Dennison Manufacturing Co. at age 55, though no industrial giant, was the recognized leader in the markets for tags, crepe paper, and certain miscellaneous stationery specialities as gummed labels, stars, and passe partout. Quite obviously, Henry Dennison had a rich field, as well as an auspicious time, for developing his talents (J.T. Dennison 1955, 10).
Dennison entered the Company at the period of initial growth when it had incorporated, sought new products and markets, and set in motion the relatively new technique of advertising. He inherited a corporation undergoing rapid structural change at a decisive stage in its economic expansion (Reagan 1982, 148; 150).

Dennison proved his interest in business and wider industrial reform early in his career. Upon entry to the DMC, he joined forces with his uncle Charles—both being determined to develop a balance between marketing and production forces—and pushed for centralising operations at the new Framingham plant. What necessitated this move was that a buyers' market had prevailed in the US since the period of sagging prices after the panic of 1873. As a consequence, the influence of the marketing branch became progressively more pronounced which, in turn, caused a discrepancy between factory and marketing management in terms of both salary and opportunities to acquire stock. "Such a policy naturally failed to stimulate the factory management and failed to attract to it the men able to make the factory an efficient producing unit" (Hayes 1929, 492). The ending of this economic downturn in 1898 signalled the emergence of a new era in Dennison policy. Production and more production became the order of the day. This new era coincided precisely with Henry Dennison's entry to the firm. As James Dennison expressed it:

"To understand Henry Dennison's early activities in business, we note that in 1899 Mr. Dyer, as President, had his office in New York; that the Company's Board of Directors was dominated by market-minded men; and that the factory management had little say in making company policy.

Therefore

(i)n the reorganisation of the Company's structure which ensued, the younger Dennison was the spark plug. The policy of centralizing manufacturing at Framingham was applied to marketing operations as well. In the interest of harmonious operations the principal marketing executives were moved to Framingham from their field headquarters. And we may note that, in centralizing marketing, Henry Dennison introduced a novel development. He separated selling from merchandising (J.T. Dennison 1955, 10-11).

Merchandising as a separate function from selling began to develop in 1906 when merchandising committees were established for each principal line of Dennison business.
These lines represented manufacturing divisions (or what today would be called strategic business units) and were divided into:

(a) **jewellery lines**: jewellery boxes and cases, display cases and fixtures

(b) **consumers' line**: shipping and merchandise tags, gummed labels, and baggage checks

(c) **dealer or retailers' lines**: stock items

(d) **crepe lines**: all crepe paper items

(e) **holiday lines**: special day goods like Christmas cards and paper

These committees comprised from 8 to 15 members and they were responsible for the determination of goods to be sold; how they were to be packaged and priced; ordering stock goods for manufacture and inventory; planning new items; placing orders with the factory; quality management; keeping sales staff informed of merchandise developments; and in general, coordinating factory and sales activities (Heath 1929, 167-168). The principal outcome was that they allowed sales staff to give their exclusive attention to selling the products.

Exemplifying his early interest in industrial reform, in 1900 Dennison visited the National Cash Register Company (NCR) in Dayton, Ohio to observe their much publicised and pioneering welfare programs. At this time, the NCR was one of the greatest corporations in the US, employing about 10,000 people, with a tight monopoly on its product, with no employees' committees or organisations for collective bargaining, and built around and as a pedestal for one man – John H. Patterson, the founder and principal owner. The pioneering welfare measures of the original "large-window factory" were paternalistic in nature and comprised recreation, health and safety, and vocational education projects in conjunction with piece-rate, bonus, and efficiency schemes popularised by advocates of systematic and scientific management. The NCR wage system also included a profit sharing scheme wherein "after the regular dividend has been provided for the holders of stock, the remaining profits are divided into two parts, one
part going to the company, the other half to workers, the latter half being divided between management, office and factory workers" (Haake 1922, 222).

The young Dennison concluded that many of NCR's methods would not be applicable to the DMC, but was impressed by their use of "keen, thoughtful planning" encompassing welfare programs, research to promote long-term and continuous profits rather than short-term windfalls, their use of the military system of hierarchy, and their coordination of the various departments (Reagan 1982, 151). This is apparent in an unpublished paper he wrote in 1900 entitled "Report of Visit to NCR". With typical candour, Dennison opened this report stating:

In considering the more general points of economy and system, I realize fully that I am without any practical knowledge of factory or business methods. The little training which I can apply directly to these questions is in theoretical economics (Dennison 1900, 2-3).

This is an interesting point as it demonstrates that from the genesis of his business career, Dennison approached questions of management from the perspective of economics, which was to prove a lifelong trait.

Of particular interest to Dennison first and foremost at NCR was their "universal, systematic Plan which controls every move" along with the fact that "(c)onstant foresight seems to be one of their principles" (Ibid., 3). This foresight filtered into NCR's long-term approach to business profitability, another point of great interest to Dennison who, following this visit, developed a degree of scepticism towards the mainstream or textbook view of short-term profit maximisation. "Theoretical economics", he stated, "teaches that large business profits...cannot be permanent" and that the aim of business was "pure and simple" short-term gains from selling (ibid., 4). Yet before his own eyes he had an example of a company which was dealing with competitors not by price-war or by increased advertising, "but by reinvesting a portion of their profits in the advance in efficiency of their plant and equipment". In other words, they had a strategic, long-view

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1 It should be noted that wage rates at NCR were lower than union schedule rates as found in 104 trades and that labour turnover was high. In fact, F.W. Taylor himself criticised NCR programs in his *Principles of Scientific Management*. 

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of business profitability. He believed "(t)he greatest lesson to be learned from the NCR lies in just this steady, gradual Advance" (ibid.).

The next year, in 1901, Henry and his uncle Charles made their first moves towards institutionalising similar programs at Dennison by adopting an NCR-style suggestion/bonus system. Two years later, following a short and successful strike for the nine-hour day, they gradually installed a factory medical clinic, an employee cafeteria, a library, a social club, and a savings bank at the family firm (McQuaid 1977, 80). However it should be noted that the Dennison Co. at all times discouraged paternalism or philanthropy and instead, laid great emphasis upon getting employees to help themselves (Dennison 1955, 11; Haake 1922, 243).

After he was put in line to inherit controlling authority by being made Works Manager in 1906, Dennison initiated a more wide-sweeping and ambitious reorganisation of the firm's operations seeking to rationalise the company through executive reorganisation and administrative restructuring. First, as indicated in opening, he brought an interest in production to the board of directors. Up to this time the company's attempts to meet competition were almost wholly in the areas of buying out competitors and increasing sales. Little effort had been made to improve production by more efficient methods and increased mechanisation, nor to cut costs of supplies by the use of new and cheaper inputs. Dennison's role as Works Manager meant that a continuous effort was now made to increase production efficiency and speed (throughput). The price set on merchandise therefore began to reflect not only the pressure of competition but also the costs of production, which meant generally lower prices and a more dependable profit (Cawein 1967, 12-13). Of the years 1906-1915 at Dennison, Heath (1929, 164) maintained that this interval witnessed the beginning of a more scientific approach to management, as evidenced at the factory by the beginning of functionalization, divisional control, emphasis on accounting methods, the establishment of a research department, a methods department, and the nucleus of a planning department.
Second, and in a manner reminiscent of Veblen and F.W. Taylor, Dennison realised that financiers/investors were primarily interested in dividends and not in management so long as returns were forthcoming. However, workers and managers, whose continuing performance determined organisational effectiveness, could be motivated to better performance by increasing rewards (Duncan & Gullett 1974, 135-136). As he argued:

The investor's service is performed in a single act but after it is once performed it cannot be stimulated to a greater or less efficiency by a fluctuating return. ...Services of the workers on the other hand, whether of managers or managed, is a continuing act necessarily varying in effectiveness from day to day in response to a great complex of influences, physical, physiological, and worse. Such services are, therefore, peculiarly apt to be spurred by a fluctuating reward (Dennison 1920b, 160).

In addition, the managers of Dennison Co. feared that control of the company might fall into the hands of absentee stockholders. As McQuaid (1977, 81) observed:

After the Dennison Company had been transformed from a family partnership to a corporation, selected high-level administrators had been rewarded with blocks of stock. In time, these shareholdings had passed into the hands of owners unconnected with the business. As a result, a progressively larger percentage of the firm's capitalization came to be controlled by outside interests. H.S. Dennison and his Uncle Charles became increasingly worried about grafting among non-family managers and powerful stockholders. Both feared that a 'credit squeeze' engineered by greedy absentee owners might take away the company's ability to underwrite a continued self-financing expansion, throw the firm into the hands of bankers and further erode entrepreneurial powers.

As a consequence, in 1911 Dennison's organisational reform program included the twin objectives of removing absentee ownership control over company policy and incorporating 'active managers' into a collective that would eventually assume rights and powers of full ownership.

This experimental Management Industrial Partnership program meant that the Dennison corporation's active managers exercised an increasingly independent, functional ownership of the company. Absentee stockholders had their shares reclassified as non-voting stock so that they could no longer ratify or thwart management
decisions. At the same time, all managers were given yearly bonuses on the basis of salary levels paid out in the form of common stock. As a consequence, they became part of an enfranchised stockholder elite group of 'technocrats' exercising a strong voice in the moulding and implementation of company policy. In this pursuit of industrial democracy, Dennison's ambition was to build an expert managerial "team" to collectively own and operate a self-financing business. Interestingly, as McQuaid (1975, 84) has observed,

(i)n an untheoretical style, Dennison had created a program which closely approximated Thorstein Veblen's 'Soviet of Technicians.' Like Veblen, Dennison equated absentee industrial control with incompetent management and the growth of a parasitic rentier class.... By recruiting administrators from within the firm and avoiding large-scale bank borrowing, Dennison felt the social and economic dangers of corporate sprawl could be avoided. Instead, the officers of the Dennison Company might preside over a finely engineered organization run along the most "scientific" principles of workmanship and personnel relations.

Likewise, rank and file employees were later to be made partners in the business, sharing in management and in the distribution of company profits. This was to become manifest following the formalisation of the Works Committee in 1919.

Dennison's attitudes in this regard were captured by Haake (1922, 244-246) who asserted that

means to an end, the end being profits and then some more profits, with the absentee owners in the saddle in unchallenged enjoyment of money and power.

The president of the company, himself, a Dennison, saw another vision. He saw the Dennison equipment and the Dennison workers as something more than engines turning out more profits. ...He determined that while he had control he would fix it up so that those who looked at the industry in his own broad-minded fashion should always keep control. And that is how there came to be government by imagination. ...Who is it that creates the profits of the Dennison Manufacturing Company? It is certainly not the absentee stockholders. ...In 1913 there were 137 principal employees. In 1919 the number had risen to 320, about one-ninth of the total force. One-ninth are employees with creative imagination. These are the real industrial descendants of the great-grandfather of the Dennisons. It is they who 'produce' the profits and keep the concern going.

While Dennison himself later asserted:
The 'industrial partnership plan' has never been and was never meant to be primarily a profit sharing plan. It is first a management sharing plan. ...The theory of this phase of management is based upon the concept that absentee control is entirely to be avoided (Dennison et al 1926, 262-263).

Dennison’s Early Published Writings: Absentee Ownership and Managerial Incentives

Dennison was determined throughout his lifetime to expatiate successful ideas—as practised at Dennison Co—to the wider management and economics fraternity. Akin to institutionalists like Commons and Mitchell, Dennison’s economic thought was driven and moulded by his practical activities. For instance, his concern with industrial democracy and corporate structure, resulted in his first ‘academic’ publication in a special edition of The Annals in 1915, wherein he addressed the issue of "how to keep the voting control in the hands of those acquainted with and interested in the business, and how to give a fair share of the profits to those of the leaders in the concern who do not hold a significant amount of stock". The solution, he argued, was to do what he had done in his own firm; that is, "some provision must be made whereby the vote should not thereafter pass out of the ranks of the active men" – active meaning those in managerial positions. He continued:

(t)he capital interests, as such, can be represented by bonds or non-voting preferred stocks, while common stock, industrial partnership stock, or partnership certificates, can be put in the hands of leaders of the business in some proper proportion and made non-transferable (Dennison 1915, 184).

More importantly, he concluded that unless said measures were undertaken, the implementation of scientific management measures would be futile.

The dependence of complete industrial efficiency upon the principles of industrial partnership is very real. Where absentee owners are reaping increasing harvests, beyond any justification through their efforts or the risks they assume, and where the true ultimate authority rests in the hands of stockholders entirely unfamiliar with and unskilled in the business, the most logical systems of task and bonus, or differential piece-rate, rest upon an illogical basis and will sooner or later face questions impossible to answer (Dennison 1915, 186).
Dennison made a similar point in the same journal five years on, though in this paper his concern was with the ownership-profit share dichotomy as opposed to the ownership-management dichotomy of the earlier paper. Entitled 'Production and Profits', he began by paying homage to F.W. Taylor for his "careful analysis of overhead expense" and his "methods of reducing costs by increasing production", asserting that though the influence of production on profits had been dealt with adequately, the opposite case—the influence of profits on production—had received scant attention. As he emphasised, "this influence of the distribution of profits upon the primary agents of production is a challenge to all men interested in the profession of management (Dennison 1920b, 159; emphasis added). For Dennison this situation was a challenge because he appreciated that the distribution of profits was a major determinant of factor productivity, and that pecuniary rewards alone were not enough of an incentive. As he asserted,

the final disposition of the profits arising in connection with his (the wage-earning worker) efforts became a very real force in spurring him on or holding him back. In spite of possibilities of increasing his own earnings, a normal human being will find his efforts lessened by the knowledge that he is also increasing an already liberal return to some absentee stockholder; or will be moved to demand a larger share for himself and to stop work in support of that demand, and even to relax his efforts after that demand has been granted (Ibid., 159; parentheses added).

He stated further, that managers should realise "that corporate structure calculated to respond to all sorts of stresses and strains is as much a matter for scientific planning as are the foundations of his buildings and furnaces". He reiterated that the financiers' role in the corporation is one-off and therefore cannot be stimulated by varying rewards, yet the role of workers, "managers or managed", is ongoing and therefore can be influenced by varying payoffs. Likewise, he stated that the control of corporations should be "correlated to knowledge and experience in the affairs of the corporation", and therefore, should be in the hands of managers rather than financiers. He concluded the paper asserting that
(s)ound engineering would therefore seem to indicate that the investor be traded with so far as possible...as is now the case with bondholders and preferred stockholders; that the managerial forces be given compensation, a significant part of which shall fluctuate closely in accord with the fluctuation of profit; that labor be hired on base rates and piece rates to vary with such variation of individual values as are measurable, and in addition, shall receive a return of secondary importance which shall be dependent upon labor's share in management and the varying success of management as shown in the profits account (Ibid., 160-161).

And further, that a corporation should provide for appropriate contracts for return to capital, some degree of managerial partnership, some real provision for the voice of the employee to be taken into account in settling the problems which vitally concern him and a corresponding share to the employee in the ups and downs of the corporation's profits (Ibid., 162).

**Dennison's Writings in the 1920s: Towards a Better Understanding of the Management Function**

Alongside his growing concern with the business cycle (to be taken up in detail in Chapter Four), in the 1920s Dennison made important though largely unrecognised contributions to management or organisational economics. This corpus emanated from his diverse activities in the management field during this decade; he was a foundation member and on the board of the American Management Association (AMA) formed in 1923 as an outgrowth of the National Personnel Association; in 1927 he was appointed vice-chairman of the International Management Institute in Geneva until its doors were shut in 1934 owing to the Depression; and in 1929, Hoover's Committee on Recent Economic Changes appointed Dennison to contribute the survey chapter on management. All in all, an impressive foundation from which to expound a body of economic and management thought.

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2 Regarding the AMA, Dennison played a key role in its inception by arranging a great deal of funding for the new organisation from the Twentieth Century Fund, of which he was a lifelong trustee (Reagan 1982, 171). Dennison's friend from earlier public service and businessman, Sam Lewisohn was the first chairman, with engineers Leon Alford and Lillian Gilbreth as joint vice-presidents. Still in existence and performing the same functions today, the AMA serves primarily as a means of educating business executives in the most up-to-date developments in personnel, employment, and general management.
Both during and following his tenure in these diverse offices, Dennison theorised widely on various aspects of management theory—heavily steeped in economics—exploring such areas as labour and management, organisational psychology and learning, manufacturing and marketing, management as a profession, and business ethics. As Urwick and Brech (1957, 113; emphasis added) note of Dennison:

(F)rom his earliest years in industry he took an active intellectual interest in the better organization of business as a public service, both from its management and from its economic aspects. Indeed, he found it difficult in his mind to dissociate the two lines of approach.

These contributions have been largely overlooked by historians of economic and management thought primarily because most of this material is in unpublished form. Yet they represent key contributions in the corpus of Dennison’s economic thought. Moreover, in this period Dennison’s conceptions of management, organisations, and business professionalism evolved and matured to forge perhaps his most enduring legacy and the richest illustration of his embrace of institutionalism.

In a speech made at the University of Chicago in 1922, Dennison laid the foundation for much of what was to follow in his management economics. He stated:

The art and science of handling men, of constructing a productive organization out of the infinitely varied elements of human nature which offer themselves as raw material, an organization which shall run with the minimum friction and without undue zigzagging in its course – this branch of the science of social engineering demands the attention of thinking men it seems to me more than any branch of human knowledge ever did before (Dennison 1922i, 7; emphasis added).

Following a lengthy discussion of the 'New Machinery' available for forging a spirit of partnership between managers and labour (management sharing, works committees etc.), Dennison made the point that there is a more important field of opportunity for soldering this partnership and that is for managers to tap into "the forces of instinct" of labour: "self-respect and loyalty". As he reasoned:
That is the field of opportunity offered to us to call into the service of production all the inherent motives, dispositions or instincts of men. We have in the past to a large extent called merely upon economic motives...we have in our blindness turned against productive service more often than toward it (Ibid., 8; emphasis added).

Dennison here explicitly recognised the importance of ultra-economic incentives for boosting labour productivity such as teamwork and a sense of belonging, both of which were emphasised in the Dennison "family" of workers. More on these matters will be said later in the chapter.

He further expounded his management economics before a meeting of the Taylor Society in April 1924, reading a paper entitled 'Who Can Hire Management: What is Managing? Who Manages? Who can best Choose Managers?'. This paper was a most insightful exploration of the management function and the theory of the firm from an unmistakably institutionalist perspective. Displaying a breadth of economic knowledge, beyond that of a typical business man, he cited Hobson's The Industrial System (1910) and adopted the latter's conception of business management and also his conceptualisation of what is to be managed:

At every point in the elaborate structure of industry each business cell is a complex psychical structure in which the intelligent will of the employer or manager applies stimulus and direction to the wills of workmen and owners of capital, planning their cooperative activity so as to meet the anticipated demands of groups of consumers... (Hobson 1910, 314 cited by Dennison 1924, 101; emphasis added).

Dennison then contrasted this conception with mainstream economists' "straight line" production-function approach to the firm. He noted that "business is not a straight line process" and further, that it was "only for convenience in popular description and, moreover, at considerable risk that we say we begin (the production process) by buying raw materials and end by turning out finished goods" (Dennison 1924, 101; parentheses added). Dennison stoutly criticised this notion of the firm as simply a production function or a 'black box':
The assumptions are usually made, for example, that profit comes from the sale of goods, that a transaction ends at a sale and that all processes leading up to this final sale are secondary—disagreeable necessities as it were (Ibid., 102; emphasis added).

As a practising manager, Dennison knew all too well that the "processes leading up to the final sale" were far from being "disagreeable necessities", but were in fact the most important points of intellectual and practical inquiry. And moreover, as he argued further, "(i)f we cast out these half unconscious, all pervasive assumptions we see business not as a straight line but as a closed circuit" (Ibid.). He argued further that the business process is "primarily dynamic and continuous" and that management is "the essential force in industry" (Ibid.). As he stated:

Here, then, is a picture...of the sort of business concern which I am going to try to hold in mind as that which is to be managed by management—a closed and intimately intermeshed circuit of psychological forces, continuous, dynamic, through and among three principal groups of human beings—investors, workers, customers—using as conductors the equipment, materials, services and money which to external appearances constitute the reality of the company. ...(M)anagement is the battery or dynamo which furnishes potential to keep the circuit flowing and to overcome the resistances involved (Ibid.; emphasis added).

Apart from being cognisant of the everyday realities of the 'going concern'—the buying of inputs and their transformation into outputs—Dennison had perhaps an even deeper appreciation than most of the institutionalists of the crucial interplay of psychological forces at work within the firm that made this transformation possible.

Highlighting the power and authority aspects of managing, Dennison argued that management is much more than a complex of authority relations, as "(o)rdem giving is to foremanship what order taking is to salesmanship: a part of the whole process of no outstanding significance" (Ibid., 102). He stated that everybody in a concern does some managing and that "'authority' is no living part of management at all, but a tool or device which managing uses" (Ibid., 105). He illuminated this point by dividing management up into its constituent parts for scientific observation and analysis. Typical of his entrenchment in the ideas of scientific management, Dennison undertook a 'job analysis' of managing stating that managing consisted of:
Understanding: consisting of observation and evaluation

Devising: consisting of conception, analysis, and contrivance

Persuading: consisting of direction, teaching, and inducement

In so doing, Dennison stressed that managing is a compound process of observation, devising, and instruction, that is codeterminous with the whole active organisation. So that efforts to share management via works councils, of which he was a pioneer advocate, are an "attempt to devise a method of getting the advantage of much more of the managing abilities in the total group than the old one-man or autocratic structure could get, especially those related to observation and instruction" (Ibid., 106). For, as he reiterated as regards the function of workers, "(t)hey are in residence, they have within the total of their group about as much knowledge as exists; (and) they have every imaginable possibility of constructive contribution" (Ibid., 109) – all of which constituted, for Dennison, managerial ability. In summary, he stated that:

The principal managerial job in any concern is the coordination, the composition, the integration of the impulses, energies, and interests of the three principal groups of human beings—the investors, the customers, the workers—keeping effective powers at a maximum, wasteful resistance at a minimum (Ibid., 110).

In the second half of the 1920s, Dennison continued to espouse his management economics, but hereafter the focus of his thought was on areas such as management education, the development of management as a profession, the relationship between psychology and economics and management theory, and the need for better management-labour relations. Throughout the winter of 1924-25, for instance, Dennison drew on his Harvard Business School experience and lectured in a course of evening classes for business executives at the Bureau of Personnel Administration in New York City, at this time under the directorship of Dr. Henry C. Metcalf. These lectures were later published as part of Scientific Foundations of Business Administration in 1926 with contributors including philosopher H.A. Overstreet, biologist O.W. Caldwell, Harvard economist Thomas N. Carver, political scientist Mary Parker Follett, and managing director of the Taylor Society, H.S. Person. In all, Dennison delivered four lectures wherein he
discussed the aforementioned analysts' lecture topics in terms of the practical implications of these theoretical orations for everyday business life.³

His first lecture, 'Practical Applications of Scientific Principles to Business Management: Biologist and Philosopher' demonstrated an institutionalist penchant for biological analogies. Discussing the biologist Caldwell's paper, Dennison wholeheartedly agreed with the latter's distinction between biological and social inheritance stating that how men think and act is only partly determined by biological inheritance. Inheritance is also socially or environmentally conditioned so that undesirable or defective biological traits can be checked or corrected by the ever evolving relations and customs of the social group. For Dennison, this had definite business applications. As he saw it:

The powerful influences of industry and commerce, then, can be directed upon society for its own good or ill. The business manager, as social engineer, takes rank at least with the eugenist and surely with a more immediate chance to help or hinder (Dennison 1926d, 255).

This is typical of the conception of science in service of society and in determination of beneficial social outcomes. It also is reflective of the Veblenian and 'New Capitalist' ideal of industrial serviceability, and perhaps foreshadows the later evolutionary approach to economics in viewing the business firm as a repository of inherited traits with the strategic importance of management as the coordinator of these traits.

In his second lecture, Dennison's discussion of the philosopher Overstreet's, and also H.S. Person's papers demonstrated a decidedly Veblenian hue. He noted Overstreet's and Person's recognition of how, since the industrial revolution, the pecuniary or money-making motive has held sway in organisational culture. Yet in his constant personal mission to induce American businessmen to elevate management into a great profession and pay more attention to deeper motives, Dennison stated that,

³ His discussion of Carver's lecture will be discussed in later chapters to maintain thematic continuity.
Motives of artisanship, of desire for good repute, and of service might, by analogy with other human activities, join in some force with the profit motive to make a compound actuation behind business which would modify profoundly its standards and practices (Ibid., 256; parentheses and emphasis added).

By serviceable production, Dennison meant those productive or distributive activities yielding net utility to society. The most obvious antitheses of these for Dennison, like Veblen, were "goods used chiefly or only for competitive display of money-getting prowess, whose only claim lies in their expensiveness" (Ibid., 257-258). Directly showing his familiarity with Veblen's work, he here makes reference to "conspicuous consumption" and describes it as "(t)he competitive display of lavish wastefulness upon which Veblen has thrown his spotlight mind" (Ibid., 262).

The culmination of Dennison's involvement with the Bureau of Personnel Administration was a chapter in Metcalf's 1927 volume, Business Management as a Profession. Other contributors again included Follett and Person, and also A.B. Wolfe, an Ohio State economics professor and former student of Taussig's, and Harvard Business School Dean, Wallace Donham – all members of the Taylor Society. Dennison's chapter was entitled 'The Essentials of a Profession' and he sought to demonstrate "how and through what means we may expect progress in business management toward the professional status". Dennison had four 'tests' of professional activity:

1. trained intelligence
2. free and open application of the methods and fruits of science
3. motive of service to mankind greater than motive of service to one's self and own
4. adherence to a code of ethics

Dennison then attempted to assess how far business management has progressed in its ability to pass these 'tests'. He highlighted the astonishing growth in formal business education; the progress in research and experimentation citing scientific management, scientific merchandising, selling and organisation; the proliferation of information and knowledge sharing due to trade associations, chambers of commerce, and professional research agencies; and finally, he examined in some depth the history of medicine and the
development of ethics therein, concluding that managers should strive to "cultivate the
development of right purposes and of right technique":

We must have and we can have, in the development of business
management, an advanced technique, a greater use of science, a wider
application of scientific methods of research, all actuated by a higher
purpose (Dennison 1927b, 37).

Dennison's Insights into Human Relations and Organisational Psychology

A central feature of Dennison's management or organisational economics and indicative of
a maturation in his thought from that examined thus far in the chapter was his insight into
organisational psychology and his scepticism of mainstream economists' treatment of
human motivation. This is evident in a paper he read both at the AMA annual convention
in New York in January 1925, and a few week's later at a convention of the American
Psychological Association in Washington DC. Entitled 'The Need for an Applied
Psychology of Organization', Dennison presented the paper under the auspices of the
AMA Committee on Psychology in Business, chaired by Professor of Personnel
Administration at University of Michigan, C.S. Yoakum, and which included Marion
Folsom from Eastman Kodak whom Dennison would later join in the New Deal.4

This paper represented one of the richest expressions of Dennison's
institutionalism and as Cerullo (1977) and Wren (1987, 297ff) have cogently argued, he
was an analyst in human relations and organisational psychology well before his time.
Indeed, Cerullo (1977, 20) has maintained that the work of Dennison (and also Henry
Gantt), in fact, predated much of the work of the so-called human relations school:

Both men early on recognized that since management involves getting things
done with and through people, its study should be centered on interpersonal
relations. Gantt and Dennison were ahead of their time because the human
[relations] school was not recognized until the 1930s.

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4 Incidentally and perhaps of interest for later developments, this Committee also included A.H. Dyon
from the Hawthorne works of Western Electric.
Whilst Kaufman (1993, 24-26; 206 n. 10) has noted that the term 'human relations' was used frequently a decade before the Hawthorne experiments by non-academic writers such as Dennison, "who had close ties to universities and actively participated in scholarly research". Wren (1987, 297) has argued in a similar vein that Dennison anticipated by a decade or more the behaviourists who advocated sociometrically selected work teams in order to group workers in a compatible fashion.

Turning, then, to the paper in question, Dennison began by suggesting that conflict and conquest are not necessarily incontrovertible facets of business life, as long supposed. Organisations need not be composed, he argued, of one opposing group dominating another, or else of a balance of opposing powers. In the tradition of Taylor, he asserted that organisational conflict is not essential and may be lifted to a higher plane "so that any conquest involved will be a conquest not of man over man but of man over nature, yea, even man over his own nature" (Dennison 1925c, 3). Conflict was not the means to "create a living organization for constructive uses", he asserted, and that "only by patient and thoroughgoing analysis, by the cutting up of our preconceptions into bits—into elements—by discarding some cherished suppositions, and by ingenious and faithful experiment, will the principles of human organization and their practical applications be found" (Ibid.). Scientific method could replace arbitrary and rule of thumb management that was at the heart of labour discontent. Whilst Dennison did not accept that work need be "stupid, monotonous drudgery" or that workers are motivated solely by pecuniary compensation for use during their leisure time. "If one can judge from published works", he said, "such seems to be the belief of Henry Ford, but to me it carries no color of truth" (Ibid., 4).

This is very much in the spirit of Veblen, who in his 1898 essay 'The Instinct of Workmanship and the Irksomeness of Labor', took great pains to dispense with the assumption widely held by mainstream economists that work was axiomatically irksome or yielded some form of disutility. Were this so, Veblen argued in typically sardonic fashion, then humans would be unique in the animal kingdom as having an “aversion to whatever activity goes to maintain the life of the species” and that this trait “is assuredly
found in no other species of animal” (Veblen 1964, 78). Furthermore, he argued that this widely held assumption did not sit all that well with the record of human evolution, in that, if humans attempted to consistently “avoid the labor by which... goods are produced” then in the dynamic process of Darwinian selection, “there is no chance for the survival of a species gifted with such an aversion to the furtherance of its own life process”. Indeed, if this was the case, then he believed that by this “alien propensity”, humans have gained some form of “emancipation from the law of natural selection” (Ibid., 79). Above all, Veblen believed that an ‘Instinct of Workmanship’ and serviceability pervaded humankind.

Dennison possessed a similar conceptualisation. Of the labour-leisure tradeoff, he believed that

the character of man's leisure is a function of the character of his working hours; the more degrading his work the more degrading forms of leisure he will choose; the more uplifting, the more self-respecting his work, the higher forms will his choice of leisure take (Ibid.)

In building a "living industrial organization of men", he suggested taking account of three principle psychological forces impacting on men and women working together:

(a) the intellectual equipment of members of the organisation: knowledge of how to do one's work and the relation of this to the work of the whole organisation – today what is called organisational culture

(b) economic or pecuniary incentives

(c) non-economic incentives: pride, service motive, habits and the like (Ibid., 5).

He noted that his "amateur classification" was by no means final, and that like the progress of all sciences, progress in organisational engineering does not have to wait upon complete and absolute knowledge. Practical use can be made of knowledge as it exists with improvements in practice following each advance in knowledge. Furthermore, he stated:
At least, this classification can break the employer away from the classic error of assuming that the economic motive is all that needs to be considered in the relations of an employee to the whole group he is working in; that to deal with an employee without account of his pride, inertia, self-respect, stupidities, fears and loyalties, is to deal with a penny-in-the-slot machine, not a man. (Ibid.).

In other words, Dennison believed humans to be creatures of habit and custom who were driven by more complex forces than pure monetary gain. As Urwick and Brech (1957, 124) observed of Dennison,

he rejected from the beginning the undiluted economic calculus and realised that there are other motives which must be brought into play if men are to accept loyally and constructively the discipline essential to the large-scale groupings that modern machinery postulates.

Or as Dennison himself expressed it:

We know, in the first place, that the economic forces are not all and that business managers don't adequately meet the situation if they behave as if they were all. We know that habits apply to emotions, to beliefs and tastes, as well as to mental and bodily activities; ...many habits which a man cannot be brought to change by exhortation he can be brought to change by being subject to new and cogent motives (Dennison 1925c, 8; emphasis added).

He therefore rejected the formal, authoritarian approach of treating workers as passive instruments incapable of initiating action or exerting influence in any significant way, as he noted that "fear is a very imperfect force to be relied upon in building up a living producing organization" (Ibid.) More important for motivating workers than the "inhibiting emotions" of authority, he believed, was job security. In words almost out of Taylor's mouth, Dennison believed that removing the fear of capricious unemployment "is in itself a gain and opens up the way to the utilization of the more affirmative forces of pride, team spirit, emulation and loyalty" (Ibid.).

In concordance with Cerallo's (1977) view of Dennison as a precursor to the ideas emanating from the Hawthorne studies of the 1920s and 30s, apart from the pathfinding insights already discussed, Dennison was evidently aware of the facets of working conditions highlighted by the early (pre-Elton Mayo) Hawthorne experiments in the mid to late 1920s (Wren 1987, 236-237). As he observed:
It will be noted...that little mention has been made of the **physical influences of good light** and proper general working conditions. Obviously this is not because I think measures to preserve and develop these influences can be overlooked, but for purposes of emphasis upon the psychological factors, _I am taking for granted proper sanitation, lighting, and safety_ (Dennison 1925c, 6; emphasis added).

He also discussed organisational learning—"learning about the job and how the job counts as part of the whole production process"—and how this was a continuous process.

Even in this paper in 1925, the notions of **informal organisation** and **goal congruence** were discussed. Dennison believed that Frederick W. Taylor was very much alert to the existence of informal organisations (Ibid., 242), and following the latter's keen awareness of systematic 'soldiering' and group pressures, Dennison believed that management can, and must, "make the working environment such that self-respecting men might conceivably take pride and pleasure in their hours of labor". Despite the fact that over the last hundred years business has been, as a whole, conducted in "default of interest on the part of the worker", Dennison firmly believed that management must harness

the capacities large or small which reside in practically every worker to give some help, beyond simply doing his own work, to the cause he is associated with.

And further:

If we can release and harness the willingness and the higher segment of the abilities of each man and woman in a large group of workers we shall, in the aggregate, have set to man's purposes a great and new force (Ibid., 12).5

Apart from these insights, Dennison was also critical of mainstream economists' assumption of complete knowledge of economic influences on behaviour, highlighting the methodological problem with the tendency of mainstream economics, and some aspects of

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5 This idea was also evident in a later (unpublished) lecture Dennison delivered at the Personnel Administration Bureau on October 21, 1926. He stressed here that the essential part of management is not merely knowing where to get the right inputs to transform into outputs, but "knowing how to get folks to do their work". He highlighted his belief in the worth of "psychological engineers" in the business world and that their main task would be "the science and art of so arranging working groups that the most effective results can be obtained". He related task, he concluded, would be "that of adapting the methods and conditions of work to the people who are to do it" (Dennison 1926d, 1-2).
the scientific management community, to bundle all individuals into the mystical grouping of *homo oeconomicus* upon which economic influences are assumed to be universal and identical (Kaufman 1993, 26). As he observed:

Our knowledge of economic influences is further reduced in value to the industrialist by the fact that so little of the study has been applied to individuals and so large a proportion of it to the 'average man' or the theoretical economic men. There is, for example, the undoubted fact that any group of economic influences produces different effects upon adult males with families, upon youths, and upon women. There is a further complication in the fact that economic influences are always relative to the economic status of the individual (Dennison 1925c, 7; emphasis added).

And elsewhere:

A manager, if he is to be called a manager, must find out exactly what and why and how his workers are feeling, and when he knows that, he soon knows that no man out of an asylum is an 'economic man'. The economic man is pure abstraction...other human faculties, besides that of reaching out for the material things of life, must be more thoroughly understood before we can expect a man to put the whole of himself into his task. We must know to what extent pride comes into the matter, and whether he has the instinct of workmanship. ...We must know the whole man, not merely his economic sector. ...I, personally, believe that all the wonderful advance in mechanical equipment which has been made in the last 75 years is insignificant as compared with the progress we should make when we learn to harness that greatest force of all – the resolute will of the worker whose whole heart is in his work. ...A hundred years ago you were reconstructing industry in another sense; and now the time is ripe for a second industrial revolution (Dennison 1927c, 21; emphasis added).

Dennison was of the belief, therefore, that "more intensive analysis of economic forces" needed to be conducted and that "(t)here is, moreover, a dynamics of economics which would tell us new and astounding things about the total effect of changes in income" (Dennison 1925c, 8; emphasis added). In this context, he again resembled Veblen who, in his 1898 essay on 'The Instinct of Workmanship', challenged the "caricature" that economists held to be 'economic man' as being "an anomaly in the animal world". Veblen was also of the belief that this conception should and could not go unchallenged:

But if this economic man is to serve as the lay figure upon which to fit the garment of economic doctrines, it is incumbent on the science to explain what are his limitations and how he has achieved his emancipation from the law of natural selection. His emancipation from the law is, indeed, more apparent than real (Veblen 1964, 79).
Crucial to this progress towards a better understanding of human behaviour, Dennison believed, was the development of the management 'profession'. In May 1925, in a paper published in *The Annals*, Dennison identified in business two kinds of business manager: the business "warriors" and "fighters", and the business "engineers" and "builders". Dennison demonstrated that just as engineering is a profession through the application of science, so too business management is "learning to respect patient impersonal study of problems" and "learning how consciously—as in the past he has been wont unconsciously—to make commonsense use of 'all the facts yet available', and to set limits to his dependence upon intuition" (Dennison 1925a, 144). As he stated further:

For the business situation has become much too complex and hypersensitive to let us rest easy if our life and progress depend upon the hunches and hurryings of a 'natural' laissez faire economy (Ibid., 144; emphasis in original).

In words reading remarkably like Veblen's, Dennison asserted that the complexities of our "man-made machine(s)" or institutions "cannot succeed under a trial-and-error, survival of the fittest regime; it cannot do without trained business engineers as its tenders" (Ibid.; emphasis added). And further:

Just here, in the indispensability of the engineer, the captain of industry in spite of present difficulty finds his greatest hope of future salvation. ...In the engineer, the captain of industry finds the beginning of that insistence upon truth and that suspicion of mere might which and which only can break through the vicious circle of strife surrounding him (Ibid., 145; emphasis added).

Compare this extract with Veblen in *The Engineers and the Price System* (1921, 53; emphasis added):

These technological specialists whose constant supervision is indispensable...constitute the general staff of industry, whose work is to control the strategy of production at large and keep an oversight of the tactics of production in detail. Such is the nature of this industrial system on whose due working depends the material welfare of all the civilized peoples.

And like Veblen's distinction between the 'pecuniary' and 'service' motives of industrial undertakings, Dennison maintained that it was the exclusivity of the pecuniary, financial
or profit motive that has resulted in "strife"; that is, "the unconditioned and hence too self-
considerate nature of capital's control since the industrial revolution" (Dennison 1925a, 145). Again, this is remarkably similar to Veblen's (1921, 39-40) insistence that "businessmen are increasingly out of touch with that manner of thinking and those elements of knowledge that go to make the logic and the relevant facts of machine technology" because they "are by training and interest captains of finance; and yet with no competent grasp of the industrial arts, they continue to exercise a plenary discretion as captains of industry" which has resulted in "waste and sabotage".

Yet, as Dennison asserted, a professional business "engineer" or manager would not measure success solely by financial return. "Some other measures of his worth", he said, "must have a part in his final self-evaluation, some estimate of service to his fellow man and of contribution to the fund of human knowledge" (Dennison 1925a, 145). In this way, he concluded,

"(we) are today laying the foundation of a new great profession which will devote itself to the service of man in producing and distributing material wealth. It will use most of the professions of present standing and many sciences and it will foster special researches into the domain of truth (Ibid., 147; emphasis added).

Compare this vision with Veblen's rather utopian one in The Engineers and the Price System wherein he believed industry would be under the tutelage of a 'Soviet of Technicians' dispensing with "the interference of the lieutenants of absentee owners":

The duties and powers of the incoming directorate will accordingly converge on those points in the administration of industry where the old order has fallen short; that is to say, on the due allocation of resources and a consequent full and reasonably proportioned employment of the available equipment and man power; on the avoidance of waste and duplication of work; and on an equitable supply of goods and services to consumers (Veblen 1921, 142; emphasis added).

While Dennison and Veblen's conceptualisation of 'engineers' differed—with Dennison conceiving of managers as 'organizational engineers' while Veblen had a more literal, though ultimately utopian vision of the engineer in mind—their analysis of capitalist
economies and their belief in the centrality of informed management therein was remarkably alike.

**Organizational Engineering: Dennison's Management Economics magnum opus**

The intellectual watershed of Dennison's management economics was his 1931 *Organizational Engineering* which predated the publication of the social psychological—as opposed to the factory illumination—aspects of the Hawthorne studies (Wren 1987, 237-247). Following the leads of Cerullo (1977) and Wren (1987, 297), it has been argued in the preceding paragraphs that Dennison's management activism and organisational economics were ahead of the pioneers of so-called the 'human relations' movement personified by the work of Mayo, Roethlisberger and Dickson in and around the Hawthorne experiments. Apart from providing evidence to dispute the widespread view that the Taylorists had little interest in the 'human factor', Dennison's actions at his company from the turn of the century, and his writings in this area from the mid 1920s and culminating in his 1931 *Organizational Engineering*, actually represent a logical progression or *evolution* in his thinking reflective of his management activism. This volume represented the most mature expression of his organisational economics and displayed an insight into the inner workings of business organisations well before its time.

Beginning with *individual* dynamics rather than *group* dynamics in organisations, Dennison traced the techniques and philosophies for coordinating individuals into working groups—"gangs" or what would later be called *informal organisations*—then igniting these to action, directing their efforts through engineering goal congruence, and achieving success in these groups through the organisation. He recognised early on that since management was about achieving goals with and through people, its study should centre on interpersonal relations (Cerullo 1977, 20). For like the necessity of balance and well-being of the different specialised functions of a living organism, a business organisation, composed as it is of human beings, must also see to it that these individuals are similarly in balance and in harmony with each other for the organisation to achieve its goals. As he stated in opening:
All the strength of an organization comes from its members. The incentives, the habits, and the traditions which guide and move the men and women of a nation...or a corporation are its sources of power. An organization's greatest strength will be realized if all its members are strong and strongly impelled, if their acts lose no effectiveness by frictions, conflicts, or unbalance, and trend in a single direction (Dennison 1931c, 1-2).

Managers or organisational engineers, then, have the unique task of coordinating these human forces and resistances—"human motives, purposes, feelings, knowledge, and abilities"—so that they intermingle or 'synergise', as it would be termed today, to achieve maximum effort and productivity (Ibid., 3). The problem in this endeavour, he astutely noted, was overcoming "frictions" and achieving goal congruence or "the development of a common purpose" or "mutual interest" (Ibid., 31).

Analysts in the past—chiefly economists—he continued, when faced with this "complex tangle of motives at work in most human institutions" committed "errors of simplification" by reducing these into generalised maxims efficacious only for a 'straw' economic man: "The laissez-faire doctrine and communism alike result from dropping the thread before the end, the communist following the human thread and the classical economist following the money thread" (Ibid., 9). Here Dennison was again critical of the simplistic view of human motivation held by economists but more damagingly held by managers. In analysing the informal organisation or work group and the motivating forces at play therein, he unequivocally rejected the simplistic, hedonistic calculus characteristic of uninformed management and mainstream economics:

Neither managers nor men can be adequately understood if thought of as wholly controlled by economic or any other single set of motives (Ibid., 13; emphasis added).

And further, he remarked that

(i)t is an easy mistake for a business organisation to count too heavily upon economic motives of winning loyalty. ...Unless supported by a structure of non-financial incentives, economic methods cannot go far in building up loyalty. ...(W)here organization bonds are wholly economic, it is impossible to prove logically that grafting is improper (Ibid., 100-101; emphasis added).
He undertook an insightful analysis of teamwork, leadership, and motivation as a means of providing a backdrop for his deeper exploration of exactly what impels members of an organisation to work towards the "common purpose". In other words, as he highlighted, any study of leadership necessitates a study of "followership" – "of just what induces men to acknowledge a leader" (Ibid., 55).

Since an organization can work upon its members only through their minds, every influence which it brings to bear upon any one of its members must reach him through just that intellectual and emotional structure which is at the moment the result of his heredity and past environment (Ibid., 57-58).

After many years of living and working together in these groups, he maintained, what evolves is "a body of standards, policies, or traditions" often difficult and slow to change. These are "the group habits, prejudices, ideals – the unconsciously accepted standards of behaviour", or what today could be called organisational culture. Dennison was of the belief, therefore, that all of men's actions were the result of previously acquired habits so that the most important task of the manager was to harness and develop effective and productive employee work habits (Ibid., 59; Cerullo 1977, 22).

Dennison perceived there to be four primary forces impelling or actuating organisational members to work towards organisational goals: self-serving motives, craftsmanship, the need for self-respect, and loyalty (Wren 1987, 297). Again, he was quick to highlight that though "the desire for money is a powerful and pervasive characteristic of men, ...it is not the only one through which they are influenced". Organisations that consider and harness all groups of motives, he stated, "will be more effective than any other" (Dennison 1931c, 65-66). On loyalty, Dennison's views can be gleaned from the above. Whilst on craftsmanship, or "the instinct of workmanship", Dennison was non-committal stating that the strength of this force was difficult to ascertain.

Regarding the need for self-respect, Dennison unambiguously believed it was one of the stronger human motivations and it is here that he greatly anticipated the later work of the Hawthorne studies. Apart from implying the existence of informal organisations before the formal publication of the experiments conducted at Western Electric, Dennison
was very much aware of the importance of group approval on the mental attitude of employees. Having already demonstrated that output restriction could be undertaken to gain approval of co-workers (Ibid., 87; Dennison 1931a), Dennison highlighted that "(t)he effects of this group influence, whether favorable or unfavorable to the purposes of the organization, are not lightly to be disregarded" (Ibid., 87). As Wren (1987, 298) has highlighted of Dennison, "he recognized informal groups and their influence on restriction on output and proposed nonfinancial incentives which, when properly mixed with economic incentives, built loyalty". In his own words, Dennison realised early on that

(m)en are, with few exceptions, extremely sensitive to the attitudes of their fellows. They find it very important so to behave as to avoid the ill-will of the groups with whom they work and live. Good repute with the boss at the cost of bad repute with the gang will be sought in only a minority of cases: the boss is not always there; the gang is. What the gang seems to approve appears first in its own behaviour. Each member will, therefore, find an example before him which he for good or ill is strongly inclined to follow.

Desire for the good opinion of co-workers is one of the more frequent causes of restricted output. ...On the other hand, the desire for the good opinion of one’s fellows is a spur to effort where group attitude favours the organization (Ibid., 87-88; emphasis added).

These pioneering insights into organisational economics are reminiscent of Veblen’s marvellous 1898 essay on the ‘Instinct of Workmanship’. Both writers believed in an “instinct of workmanship, efficiency, serviceability” amongst humans, so that inefficiency or wastage or futile effort was shunned as being against the best interests of species maintenance. In this context, Veblen was of the belief that

Man contemplates his own conduct and that of his neighbours, and passes a judgement of complacency or of dispraise. The degree of effectiveness with which he lives up to the accepted standard of efficiency in great measure determines his contentment with himself and his situation (Veblen 1964, 89).

And further:

As regards serviceability or efficiency, men do no only take thought at first hand of the facts of their own conduct; they are also sensitive to rebuke or approval from others. Not only is the immediate consciousness of the achievement of a purpose gratifying and stimulating, but the imputation of efficiency by one’s fellows is perhaps no less gratifying or stimulating. Sensitiveness to rebuke or approval is a matter of selective necessity under the circumstances of associated life (Ibid., 90).
It is evident, therefore, that Dennison recognised the importance of the 'human problem' in business organisations in a way in which classical organisation theory—a fusion of Taylor and the orthodox mainstream theory of the firm—apparently did not. Furthermore, and emphasised by Cerullo (1977, 20), Dennison also had a firm grasp of the behavioural science implications of designing effective management information systems. Not solely a technical means of communicating objectives, Dennison's conception of informal work organisations clearly intended that processed data—or what he referred to the "states of mind of members" of the organisation—serve as inputs or "elemental data" to management and employee decision processes by affecting their behaviour. Through this intricate maze of organisational culture and motive forces, top management informs and impels lower levels within the organisation (Ibid., 58; Cerullo 1977, 20).

**Recent Economic Changes, 1929: Dennison as Management Economist par excellence**

Dennison's status by the late 1920s as a leading management economist was indicated by the fact that from all the notable managers in the USA, he was appointed a member of "A Special Staff of the National Bureau of Economic Research" to make a survey of developments in Management for the Committee on Recent Economic Changes. This committee was headed by Hoover with Taylorist E.E. Hunt, as secretary. Like earlier surveys conducted to enlarge the analytical understanding of the American economic system that Dennison was involved with, his prowess in economics was again recognised by an invitation to join an elite group of economic researchers including Gay, Mitchell, Frederick Mills and Leo Wolman of the NBER, and O.M.W. Sprague and Melvin Copeland from Harvard.

The choice of Dennison to contribute the survey chapter on Management reflects two aspects of Dennison's abilities: first, he was representative of the progressive corporate liberals receptive to Hoover's associationalism; second, his competence in, and his succinct yet eloquent expression of, management and economic matters. Yet this
survey chapter revealed more than Dennison’s high-standing in public and management circles. The fact that, once more, he worked side by side with some of the most pre-eminent economists of the time demonstrated that Dennison was regarded as a competent economic analyst who fitted squarely into the institutionalist forces shaping Hoover’s agenda.

Dennison’s chapter purported to capture the methods of management found in a survey of “average good practice” in American manufacturing and marketing. Some 500 people from a representative sample of 100 different companies were interviewed regarding managerial methods used in the upkeep and expansion of the organisation itself and in meeting problems of manufacturing, marketing, selling, merchandising, and clerical control. Overall, Dennison reported, “(t)he survey gave evidence that a growing number of business men care a great deal for something more than what they can get out of business for themselves”. This was decidedly so in the sense of responsibility felt towards the organisation itself, its investors and its customers, though less so towards employees. He found that “only 20 per cent (of companies) included the bettering of the skill and morale of the employee” and that “there are as yet only the beginnings of scientific thinking on the more human problems” (Dennison 1929a, 496). However, he continued,

the marked tendency toward the scientific rather than the opportunist type of mind, and the growing belief that training for general business management is worth while, make it possible that the human problems will some day get a larger share (Ibid., 496-497).

Part of this trend and indicative of Hoover’s influence was “co-operative thinking” amongst managers. “Freer and freer exchange of information, constantly improving the lines of communication”, Dennison asserted, “are keeping the body of the American business army marching behind its pioneers" (Ibid., 545). This was encapsulated by the plethora of business and trade associations and the meetings and publications that went with them. Such that, in summary, Dennison reported that “the art of

6 Other notable members of this committee were William Green of the AF of L, General Electric’s Owen D. Young, and Taylorist businessman Arch Shaw.
management...turned a corner in 1921." A reorganisation of management thought was undertaken, said Dennison. No longer was management viewed as a vested right, but the exercise of a special skill demanding intelligence and careful and continuous training (Ibid., 545-546). As he stated of the postwar period:

To cope with the growing complexities, the manager type, through slow processes akin to natural selection, is changing. More men are being brought within managerial responsibilities, and the co-ordinated group, each member of which has his own share in the total of responsibilities, is replacing the absolute 'big boss'. To release and utilize all the creative and managerial abilities which any of their members may possess or develop is the definite goal of organization. There is to-day not only more production per man, more wages per man, and more horse power per man, but more management per man. ...Management is the planning and directing of human effort (Ibid., 545; emphasis added).

Here Dennison displayed the unique insight that explains Hoover's choice of him to write the survey. He explicitly recognised the rise of the corporation and the increasing division of labour and functionalization therein that necessitated or engendered the rise of a specialist managerial class. He also recognised like Galbraith later, that the crucial planning function of the corporation is undertaken by a specialist stratum of management staff.

**Dennison's Final Published Work: Management Incentives and Decision Making**

After two heart attacks in 1937 and 1941, and following the effective transfer of company leadership to John S. Keir, Dennison retired from business and intellectual life. However, in December 1950 a little over a year before his death, he was invited to read a paper before the American Economic Association at their annual general meeting in Chicago. The topic of his discussion was 'Decision Making at the Top Executive Level'. The paper was not inspiring, reflecting the fact that he was by now a frail, sick old man. It was largely a retrospective of his own personal achievements as a company president and an outline of what forces had motivated him over the years to make the decisions he had made. Not surprisingly in this context, the driving forces—to emphasise the plurality of
motives—chronicled by Dennison did not reflect a single focus; namely, that of a short-term, profit maximisation picture as relayed in mainstream theory. Instead, Dennison told a more complex, dynamic story of what had motivated him, as the top (chief) executive, with the overriding impetus at his company being long term growth:

From our struggles in the market place during the past hundred and six years, certain time-tested patterns for the guidance of decision have evolved. First and foremost we direct our course towards the goal of a sustained growth which shall keep pace with that of the nation. In other words, our every decision must square with the thought that we are in business, not for the short pull, but for the long pull (Dennison 1951, 99).

Inevitably, given Dennison's Taylorist leanings, all prudent decision making in his company was said to be "the result of foresighted planning and not of the hasty judgement taken on impulse". As he said,

our top executives by combining principles drawn from history, personal experience, and facts strive to reach decisions which will leave a minimum margin to chance (Ibid., 105).

Further, he observed, this planning would be strategic in that it would be undertaken with a view to the "spirit and drive of our competitors in every field" (Ibid., 100). He concluded thus:

In sum, the central concept of sustained growth and such ideals as dependable merchandise, man-to-man relations with our employees, election of directors by the managerial group, mutual interests with customers and suppliers, and fair return to investors have come to form the pattern or frame of reference within which decisions are made (Ibid., 99).

Dennison's appearance before the economists invites the separate but related questions: Why Dennison?, Why this topic?, Why this audience? In other words, what interest would economists have had in a topic seemingly so alien to their pursuit of elegant and detached theory? At first glance, these seem to be difficult questions. Yet once Dennison is situated in the economic discourse of the 1940s and 50s, especially concerning the theory of the firm, answers readily present themselves.

Dennison for most of his career, had devoted particular attention to the behaviour of business executives, especially as regards behavioural motivations (see Dennison 1928a).
The symposium in question at the AEA meeting was a joint session with the Chicago Association of Commerce and Industry, and was concerned with "Executive Decisions At the Top Level". It was chaired by NRA stalwart and Brookings Institute economist, Leverett Lyon. Apart from Dennison, other businessmen invited to talk before the economists were Dennison's friend and co-author, Ralph Flanders and also F.D. Siefkin from International Harvester. As to Dennison's selection at the meeting, it could reasonably be assumed either that Lyon remembered Dennison from the days of the NRA; that Flanders recommended him to Lyon; or else, that the businessmen chosen possessed the requisite qualities of being well known, articulate in economic matters, and also members of the AEA. No clear evidence has presented itself either way in this context.

The related questions of the choice of discussion topic and audience are interesting ones and necessarily involve an exploration of the state of economic thought of that time, particularly in the realm of the theory of the firm and industrial organisation. The vital question being: why were the economists interested in hearing business managers talk about what motivated them in their decision making? Was this not a foregone conclusion mapped out quite clearly in the textbooks? As the chair of the symposium, Leverett Lyon explained:

This phrase, 'executive decisions' is not a phrase of the traditional literature of economists. A quick survey of the indices of half a dozen of the texts most extensively in use during the past half century does not disclose the word executive. It is possible that this indicates only a lag in language. It is possible that it indicates a lag in the concept of management (Lyon 1951, 85).

Possible answers to the aforementioned questions can be found first, in the impact of Chester Barnard's germinal 1938 work on the job of business executives; and second, in

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8 At this time, a liberal Republican senator.
9 In actuality, in the AEA proceedings published in May of 1951, Dennison's paper appeared in the next symposium concerned with "Economic Theory, Statistics, and Economic Practice" – this could not be reconciled with the title of his paper and the concerns of the other papers presented in the earlier symposium.
the impact of the marginalist controversies of the 1940s and 50s. In essence, 'heretics' like the Oxford group of business economists such as Hall and Hitch and Phillip Andrews disputed the mainstream, marginalist view of managers as rational profit maximisers who reached an optimal, equilibrium (and so, socially advantageous) price and output by equating their marginal revenue and costs. Considering that the latter studies involved surveying the thoughts of business executives as part of their empirical method, it seems reasonable that the American economists would do likewise.

It was against this general backdrop that the AEA found reason to sample the opinions of notable business leaders, like Dennison and Flanders, regarding the basis of executive decision making in everyday business practice. This concern with and the ensuing debates over management behaviour amongst economists, it is argued further, laid the seeds for the growth of behavioural and managerial economics in the late 1950s and early 60s. This outgrowth witnessed the incorporation (and so dilution) and reframing of this discourse in marginalist terms, namely in the related 'disciplines' of management science, operations research and linear programming all of which surfaced roughly towards the end of the 1960s. Management economics focusing on what managers actually do in business firms, of which Dennison was an exponent, was no longer deemed suitable for the attention of mainstream economists thereafter. The extent to which the divorce between economics and management was to become sealed is reflected by the fact that in 1968, without advance notice, The American Academy of Management, who had been meeting with the Allied Economic Associations at their annual meetings since 1936, was suddenly ejected from the meetings on the grounds that their object of inquiry was not sufficiently related to economics.

Concurrent with this growth, however, was a separate and more heterodox tradition spurred by Edith Penrose's (1959) *The Theory of the Growth of the Firm* and also the birth of the Behaviouralist tradition at Carnegie-Mellon that greatly enriched classical organisational theory after Taylor, that laid the path, in some respects, for the 'new' institutional economics of the transactions costs and principal-agent variety. The period also witnessed the emergence of John Kenneth Galbraith as an institutionalist
economic thinker with his most challenging analysis of American business behaviour in *American Capitalism: Countervailing Power, The Affluent Society*, and *The New Industrial State*. Dennison's demise directly coincided with the arrival of Galbraith's major institutionalist treatises. The seeds had been planted, it would seem, in fertile soil.

**Conclusion**

This chapter has chronicled Dennison's diverse contribution to economic thought in the area of central concern to him all his life: management and organisation economics. It has been demonstrated that in his suspicion of absentee owners and his reorganisation of the family company that the imprint of Veblen is salient; that in his writings on corporate management, industrial democracy, personnel management and human relations, Dennison fits squarely in the institutionalist tradition of rejecting the orthodox conception of *homo oeconomicus* for a more social-minded conception of human motivation; and finally, that Dennison insisted throughout his life that economics, particularly the mainstream treatment of the firm and productive relations, must become more dynamic and take note of the evolving institutional structure of society and the impact of these socio-cultural artefacts on economic decision making.
CHAPTER THREE

COLLECTIVE BARGAINING AND COMPANY UNIONS: DENNISON'S LABOUR ECONOMICS

I am delighted that you have found a man so eminently fitted for this rather difficult station. I know Mr. Dennison, of course, and am sure that you will give him your cordial cooperation and support. Personally, I have been much interested in the plans which he has worked out.

President Calvin Coolidge to the US Postmaster General on hearing of Dennison’s appointment as Executive Director of Service Relations of US Post (1921)

During the First World War the USA, a country steeped in the tradition of individualism, temporarily put this commitment on hold and opted for greatly expanded planning and government direction of economic affairs. The need to fuel the fires of America’s war machine and maximise production brought technical experts and business men into greater prominence. The US had to match the German tradition of a strong liaison between science, industry and the state which had aided the latter’s war industry and military preparedness. As a consequence, the wartime Wilson administration recruited engineers including a large part of the scientific management movement, business men, professional economists and to assist in efforts to boost production, minimise waste and efficiently utilise labour.

Like many of his business peers, Dennison was ‘recruited’ by the war planning apparatus and was involved in the Council for National Defence (CND) and its ‘rationalising’ body, the Commercial Economy Board; in the Division of Planning and Statistics of the Shipping Board; and in the Division of Planning and Statistics of the War Industries Board (WIB), later the Central Bureau Planning and Statistics (CBPS), a permanent (though ultimately shortlived) executive body directly answerable to President Wilson. In the latter, Dennison served as Assistant Director and Edwin Gay was Director. To meet the ends of war, central direction of the economy was necessary and war itself, by creating clear and definite priorities, supplied the criteria to make
rational organisation of industry possible. Through the WIB, the government 'mobilised' industrial production.¹

Dennison's stint, albeit brief, in service of his country not only had a profound effect upon his career and associations, but also on his economic thought. The focal idea of planning and organised intelligence in service of the macroeconomy would remain with Dennison for the remainder of his life.

Following his war planning experience, Dennison was almost immediately elevated further into the public limelight where he continued to pursue his belief in scientific management for the betterment of society. As his son noted, "(f)ollowing the war there would be few periods when [he] would not be in the service of the US Federal Government" (Dennison 1955, 15-16). Most notable in this regard were his efforts in the realm of labour economics and industrial relations. To fully appreciate Dennison's approach to the 'labour question' one must recall the portrait of Dennison presented in Chapter One. As a humanist, Dennison propounded an ethical philosophy that underlay much of his managerial actions, not only in the realm of labour but in all his life's work. He believed that all humans with whom we have contact must be regarded as neighbours and that the more permanent this contact, the more necessary for us to concern ourselves with their welfare. He believed that the business community and the 'profession' of management should develop strong service motives not only to shareholders but to employees and the wider community (Duncan & Gullett 1974, 133-134).

This commitment to social service led Dennison to promote his philosophy—as it concerned the question of labour—first, by publication of his ideas; second, by activist involvement in public bodies concerned with the labour question. In 1919 he was elected president of the Taylor Society wherein he advocated the continued broadening of Taylorist principles from a seemingly singular concern with production to embrace the growing concerns of personnel relations and more democratic management.

¹ For more on war planning and the War Industries Board, see Bruce (1995).
and profit sharing. From 1921 to 1927 he served as Executive Director of the Service Relations Division of the US Post Office where he sought to 'humanise' the postal service and improve labour and customer relations. He also sought to implement his philosophy when involved in more immediate public service activity: he served on prestigious federal government panels including President Wilson's First Industrial Conference of 1919, President Harding's Unemployment Commission of 1921, and on the Board of the International Management Institute from 1927-1934. During the New Deal, Dennison was a member of the Industrial Advisory Board (IAB) acting as a mediator between unions and conservative employers over the disputatious provisions of the National Recovery Administration. He was also a member of the abortive National Labor Board and its successor, the National Labour Relations Board. As in other areas of his thought, it was largely though not entirely his diverse practical experience that shaped Dennison's views in the realm of labour economics.

The object of this chapter is to examine Dennison's labour economics and also how his practical experience shaped his economic thought and his embrace of institutionalism. Particular attention will be paid to four key areas of labour economics/relations where Dennison made important and enduring contributions: (a) labour organisation and regulation; (b) staff selection and personnel management; (c) industrial democracy or employee participation in management; and (d) profit sharing.

These contributions, like the majority of Dennison's economic thought, emanated from his praxis; that is, his ideas evolved out of his practical and lived experience as a business leader. Though he may not have contributed to pure theory in the area of labour economics per se, his contribution can be gauged rather from his influence on recognised theorists in the area and on labour and industrial relations practices both then and now. Furthermore, Dennison's dualistic approach to labour organisation — that is, the mutual existence of company and industrial unions for collective bargaining — was not only influential on the economics and management professions, but was a formula subsequently adopted, broadly speaking, in the Japanese
and European model of industrial relations despite being largely rejected in the USA (Admiraal 1997; Kaufman 1993; Fraser 1991).

Though far removed from contemporary labour economics, which (perhaps due to the economist's penchant for intellectual purity) is a decidedly separate pursuit from industrial, labour or employment relations, at the time of Dennison's writing there was no such demarcation between these areas. To get to the heart of Dennison's place in the labour economics of the period, one must appreciate the issues to which recognised theorists of his time devoted their attention. Because this sub-discipline was not artificially divorced from the exigencies of industrial reality, labour economics during Dennison's time of writing was fundamentally pragmatic. Accordingly, the issues of concern to Dennison the practising manager in the context of 'the labour question' were topics of much interest both to the economics profession and the wider business community as can be seen by perusing the content of economics journal articles of the period.

Utilising the American Economic Association's *Index of Economic Articles* for the period 1886-1924 to this end, under the banner of 'Labour Economics' one can glean an interest amongst economists (and business/management writers) in areas as diverse as labour turnover, employee selection, testing and training, labour legislation and regulation, trade union organisation, collective bargaining, company unions, personnel management, employee participation in management, and profit sharing – all issues of fundamental concern to Dennison. By perusing this literature in more detail one can see the influence of Dennison in the writings of the leading labour economists of the period such as John R. Commons, Paul Douglas, Edgar Furniss, Harry Milis, P. Sargent Florence, Henry Seager, and Sumner Slichter all of whom made direct reference to Dennison's work.

**Labour Organisation and Regulation**

In the previous chapter much attention was paid to Dennison's unique and enduring conception of *individual workers* and their relation to the organisational whole. Yet in
the prewar period Dennison gave scant attention to the issue of the collective organisation and regulation of labour issues he later argued were of much importance in the efficient and equitable functioning of labour markets. This issue was brought to his attention by the high level of postwar industrial disputation in the immediate postwar period and by President Wilson's ensuing Industrial Conference assembled to curb this discontent. Furthermore, the experience of war planning impacted on the consciousness of progressive business leaders, labour leaders and economists and alerted them to the problems of economic stability, labour relations and to the possibility of collective action to regulate the economy and society. Through the war planning machinery, it was believed, the nation had enhanced productivity, improved labour conditions, and established a viable system of priority planning, all of which was widely perceived to vindicate the progressive belief that in the war years mismanagement of production and labour processes was the root cause of economic and social instability (Metcalf 1972, 162; Alchon 1985, 33).

Yet despite this shift in consciousness, the first fifteen months following the armistice were a time of acute industrial crisis. As Hurvitz (1971, 7) has observed:

Labor disputes spread like wildfire from coast to coast, flaring up in most industrial centers. Strikes tied up harbors, railroads, and telecommunication lines, they closed coal fields, clothing factories, printing shops and theaters. Reaching their dramatic climax in the big steel strike, these industrial struggles seemed to be dragging the nation into economic chaos.

Despite the connotations during this time of a 'Red scare' and a Bolshevik threat, nothing quite as revolutionary was at the heart of the immediate postwar industrial conflict. Labour's goal was simply the right to collective bargaining at an enterprise level and the consolidation and extension of their wartime gains. Through the War Labor Board unions had been recognised for the first time as the official representatives of American wage earners and had been given representation on "all agencies determining and administrating policies of national defense". The Board had also obligated employers to bargain with shop committees or works councils where unions
were absent. In the postwar period organised labour sought to sustain this official recognition from the business community.

These hopes were dashed by conservative elements in the business community who sought to return to the prewar status quo. Faced with the labour challenge and in the spirit of a return to 'normalcy' or 'business as usual' characteristic of the immediate postwar period, conservative employers vowed to organise and block the expansion of union power and launched an open-shop campaign. The most public and catalytic manifestation of these sentiments was the Great Steel Strike (September 1919-January 1920) precipitated by the chairman of US Steel, Judge Elbert Gary, who refused to even meet with union leaders. Many conservative employers took their cue from US Steel and as the postwar boom fizzled out into the 1920-21 recession, a nationwide open-shop movement began to evolve (Hurvitz 1971, 9-12).

The employers' anti-union drive was also manifest in worker welfare and company representation programs designed to thwart the appeal of unions to employees and to meet union and worker demands 'in-house'. In the case of large companies like US Steel or NCR, the aim was to undercut union leverage by giving workers much of what they wanted and in so doing, convince them that they had no need to join unions. Similarly, some employers utilised employee representation or company unions, though presented as a version of collective action, as an alternative to union bargaining. The basic idea underlying these bodies was that plant solidarity between workers and management should be put before class solidarity. In practice, not only the powers but also the very existence of these company unions were at the mercy of the employer.

The strikes and lockouts not only resulted in economic losses but also generated a sense that the very foundations of the social order were under threat. To deal with the ensuing industrial unrest and "(f)or the purpose of reaching, if possible, some common ground of agreement and action with regard to the future conduct of industry", President Wilson called an Industrial Conference of prominent 'public', labour, and employer

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2 Other significant gains had included improvements in standards such as the eight-hour day, minimum living wages, and equal pay for equal work to women.
representatives in October 1919. The purpose of the Conference, according to Wilson, was for the delegates to begin

consulting together on the great and vital questions affecting industrial life...to discuss such methods as have already been tried to out of bringing capital and labor into close cooperation, and to canvass every relevant feature of the present industrial situation for the purpose of enabling us to work out, if possible, in a genuine spirit of cooperation, a practical method of association based upon a real community of interest which will redound to the welfare of all our people" (Wilson, Conference Proceedings 1920, 4-5).

The core demand of labour at the conference was for a redistribution of decision-making power and an end to employers' absolute control over industry. The unions' central aspirations was the attainment of a meaningful share in management at a plant level, which would mean that wage earners must have the right "to organize in trade and labor unions; to bargain collectively; to be represented by representatives of their own choosing in negotiations with employers", all of which was necessary, they claimed, to achieving participation in management. They also aimed to share in other decisions of management, chiefly, that employers deal with the freely chosen representatives of workers on the rules, regulations and conditions within industry that affect them. In policy terms, the labour group wished the Conference to endorse the view that policies on wages, hours, and relations and conditions be decided via collective bargaining. This emerging model of labour relations "differed from the traditional model of exclusive control by owners and from the guiding concept of shop councils...which gave no control" (Hurvitz 1971, 39; 47).

Henry Dennison was one of the Public Group delegates handpicked by President Wilson. Led by former war planning tsar Bernard Baruch, this group warmly endorsed the labour group's demand for collective bargaining recognising that to forge a new

3 The demand by labour that was to cause so much employer opposition was not so much the formal right to organize, which had long been established, but their demands that the state prohibit employers from obstructing union's lawful activities at the plant level, and that employers be obliged to deal with unions if their workers chose to embrace collective bargaining. Such demands were contrary both to traditional concepts and practices of management but also to prevailing legal opinion (Hurvitz 1971, 40)
relationship between labour and capital, relations had to be personal and that the
prerequisite for this was industrial representation. However the majority of the
Employers' Group vetoed this demand. The employers were only willing to recognise
the principle of establishment (in-house or enterprise) bargaining and asserted that in
this "(t)here should be no representative of either party from the outside". Their counter
resolution recognised workers' rights to organise and bargain collectively, but they
added a rider that granted them the right to deal or not to deal with individuals outside
their employ thereby thwarting any chance of independent unionism.

Dennison drafted three vital and interrelated resolutions at the Conference
centering on collective bargaining, unemployment and stabilisation, and (though not
publicly heard) managerial v. ownership control of corporate policy. His resolutions on
collective bargaining—Resolution No. 4 and Resolution No. 7—read as follows:

Resolution No. 4

Whereas maximum production is only possible if the full interest of the
workman is enlisted in his work; and

Whereas a sound social policy demands that work shall be done under
conditions which promote the self-respect of the workman and afford him
a sense of worth-while accomplishment in his work: Now, therefore, be it

Resolved, That it is the opinion of the conference that the employers and
employees in every factory should unite in bringing about the development
of committees freely elected by the employees (whether as part of the
trade-union or otherwise, but not in antagonism to trade-unionism) for the
joint consideration by these committees and the employers of such
constructive matters as methods of enlisting workers' interest, and of
improving efficiency of production, which are of mutual value to
employers and employees (Dennison, Conference Proceedings 1920, 52).

Resolution No. 7

Whereas a serious inequality of bargaining power exists between
employers and employees always imperils industrial peace; and

Whereas equality of bargaining power requires both the right of collective
bargaining upon the part of employees and the right of employers to deal
directly with their employees: Now, therefore, be it

Resolved, That it is the opinion of this conference that (1) employers
should at all times recognize the right of their employees independently to
organize for the purpose of collective bargaining and should always be
ready to meet any group of their employees either directly or through its
representatives, and (2) labor should recognize the right of the employers
to deal with their employees directly, through freely elected shop committees or otherwise, as well through trade unions (Ibid., 52-53).

In a set of unpublished conference notes assembled as part of his submissions, Dennison armed the aforementioned resolutions with several interrelated propositions which shed important light on his economic reasoning in the context of his labour economics and in the context of his economic thought in general. Asserting that industrial stability and peace is founded upon equality of bargaining power between capital and labour, he justified this proposition with an intuitive exploration of the economic forces underpinning the labour market. Under a system of private enterprise, he reasoned, though wages are supposedly determined by supply and demand, these laws can only operate effectively through bargaining. And if the bargaining powers of management and labour are not equal, then the law of supply and demand does not hold and labour markets do not function equitably:

Unless the bargaining power is equal, in the long run the wages of labor will not represent the true economic value of labor – the worker will receive more or less than his actual economic value as determined by the law of supply and demand.

Dennison held this to be an untenable position because, in his view, "if wages are set above or below the true economic value of labor, the equilibrium established is unstable, and usually marked by disorder" (Dennison 1919a, 2-3).

The attainment of equality of bargaining power, he argued further, required that workers be able to bargain not only as individuals but also as units and that this entails the right to organise independently in trade unions. If this is not permitted the bargaining process is not legitimately "collective". Yet having said this, Dennison did not mean that dealings between employers and employees should be confined exclusively to the medium of trade unions. In many ways he believed plant committees or company unions were a more useful point of contact where agreement is more likely and cooperative action better accomplished (Ibid., 3-6). He concluded:
If employers allow their workers to organise and to approach their employer through organizations of their own choosing, and if labor does not attempt to prevent employers from dealing with their men directly or through organizations created as part of their plants, effective collective bargaining and therefore equality of bargaining power will be secured; and yet collective bargaining will be safeguarded against becoming an instrument of obstruction or injustice (Ibid., 6).

Explicitly articulated in Dennison's words here is a firm belief in the need for institutional intervention in the labour market to counter bargaining or power imbalances – very much a tenet of the institutional approach to economics.

Dennison attempted to promulgate this dualistic approach to labour organisation to his fellow scientific managers in a paper (with 'muckraker' Ida Tarbell) read before the Taylor Society in December 1919. Here Dennison argued that Wilson's conference had failed primarily because of the differences of opinion between labour and management on collective bargaining and because the employer's group "much more thoroughly represented capital than it represented management" so that "there was much too little of the training that comes from direct contact with the employees, direct contact with the production problem" (Dennison 1920a, 80). The employers, he said, "stood very firmly against the necessity for any employer to meet with a representative of his workmen if that representative was not in his employ", an overt attack on the union movement. On the other hand, the labour group pushed the idea that "the only right form of organization" was the trade union. Though they "could not and specifically did not stand against the works committees or shop unions as a principle" the labour group believed that these bodies "would be misused by employers and there was no hope in the labor movement in any such form of organization" (Ibid., 80-81).

Taking his message to his fellow managers, Dennison stated that because "we face a very persistent, a very real, a very active difficulty arising out of the inequality of bargaining power of the employer and the individual employee", it is "fundamentally important that by all possible means (this) inequality of bargaining power be remedied, or nullified so far as possible". And "it seems that the only permanent remedy is the organizing of the workmen into collective units of one sort or another, so that with the whole group bargaining together with the employer there would be represented on both
sides an equal stake" (Ibid., 82). What form of organisation should this collective of workers take? Dennison answered this question thus:

_There are two ways to organize employees, through the trade formation and through the shop formation...both of those forms will prove essential to sound social structure._

On the one hand, the _shop union_ will offer the individual plant the greatest advantages for cooperation, for getting ahead, for improvement, for the development of good relations; but it will have the fundamental weakness, if left alone, that the workers will be too much within the power of the employer. ... The _trades union_ offers a defense of the workmen's interest which the shop has not. But it loses almost entirely, I think, that opportunity for cooperation, that opportunity to develop good will and effective partnership which the shop union has. ... (W)orkers cannot expect sufficient strength from shop unions, nor can we expect sufficient cooperation from trade unions. ... So I took as the point of view that _there should be the two alternative channels of mutual dealing – the trades union and the shop union_. ... (If we as employers put any limitations whatever upon the right of the employee's choice of representative, he has not the free choice. And if we are to have collective bargaining, it is absolutely essential that there must be free choice (Ibid., 82; emphasis added).

Elsewhere, he elaborated on this view arguing that company unions—shop or works committees—and 'outside' trade unions could only exist "side by side" if unions 'bargained', 'represented' and 'administered' as opposed to 'restricting' and 'fighting'.

_A union which preaches class antagonism, which boasts of fighting capitalists on every occasion possible, and by every method available – such a union cannot exist side by side with a works committee (Dennison 1923b, 16)._}

So while his sympathy was with the 'fighting' unions of the 'early days' or even those presently fighting for the elementary rights to organise, Dennison did not extend this sympathy to unions who, having won basic rights, continued to restrict output, use violence and "force employers to the wall" (Ibid., 17). However, those unions suited to the present stage of industrial development and that have "developed a sense of social responsibility", and are willing to change their tactics correspondingly, these unions are not incompatible with works committees (Ibid., 18-19).

Dennison would further pursue these ideas and attempt to have them written into law as an employer member of the National Labor Board (NLB), the formal agency for
the adjustment of labour disputes and for interpreting and enforcing Section 7a under Roosevelt's New Deal. From its inception, the emphasis of the NLB was on the explicit recognition of labour's right to organise. Accordingly, Dennison's function was to mediate between conservative employers desirous of eliminating the labour provisions of the NRA (Section 7a) and union representatives pushing for labour's right to organise, bargain collectively, and win recognition for independent unionism. Repeating his 'dualistic' ideas from Wilson's Industrial Conference, Dennison sought a "middle-of-the-road" compromise, arguing for the existence of both company and independent unions under the NRA.

The precise nature of Dennison's attitude to industrial unionism in this regard has been explored by McQuaid (1975) who noted that Dennison did not oppose industrial unionism per se, but that he was merely against collective bargaining becoming too closely tied to any single model of industrial relations. It is here that Dennison made his most enduring contribution to labour economics. His attitude to industrial unionism and the AF of L's push to outlaw company unions is revealed in an unpublished paper devoted to analysing the 1934 National Labor Relations Bill (later the Wagner Act of 1935) which sought to give a degree of legal permanence to Section 7a outside of the NRA structure. This Bill, closely resembling Dennison's line of thinking, argued that the equality of bargaining power was unattainable unless the organisation of employers was balanced with the employees' untrammelled right to bargain collectively with representatives of their own choosing. Without this bargaining power, it was asserted, a disequilibrium developed between wage rates and industrial expansion leaving the worker with an inadequate share of the national income (Lorwin & Wubnig 1935, 232-261; Bernstein 1950, 63-70). Of the Wagner Bill, Dennison observed that

it is essential that any provisions for collective bargaining in this Bill recognize in the first place the great variety in the situations in which, and of the men among whom, any collective bargaining worthy of the name

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4 The NLB was to take the burden off the NRA which hitherto had been handling industrial relations on a code-by-code, or more realistically, a crisis-by-crisis, basis.
must take place... We cannot straightjacket all these varieties of mind and
varieties of situations into a single mould and hope for the least success.

This is a frank argument that the Bill before you shall be so amended as
candidly to allow the existence of company organizations of employees
(Dennison 1935a, 2-3).

Dennison, after more than thirty years "thinking over, observing, and working at the
various factors making up what we know as the labor problem", knew as well as
anyone, "the actual and potential evils of company unions". Yet

(t)here are those among (employees) who sincerely feel that if they are
asked to have a part in a bargain, the bargaining process can not be done
for them but must be done by them. There are those that feel doubtful
whether a national headquarters which may be a thousand miles away can
energetically tackle and adequately handle their petty and local problems;
and there are those among them who misunderstand the true nature and
purpose of the American Federation of Labor and who fear it as
unshakeably as any employer in the country (Ibid., 3).

Despite the "idiocies and sins" of company unions, he argued, this was not a reason for
prohibiting these organisations but it is a reason to attempt to limit and prevent their
evils. "We do not cut off a head to cure a headache", he asserted. Prohibiting company
organisations because of their past and possible sins is on a par with the call by certain
employers to abolish trade unionism because of their faults (Ibid., 4).

Furthermore, for Dennison, if contracts were ratified solely by centralised or
nationally-based federations of employers and employees, for instance, class conflict
would inevitably result:

we shall seriously be risking the setting up of two great armed camps
whose divergence of interest must constantly receive the major emphasis,
and whose final bitter conflict can never be avoided by any machinery for
arbitration, compulsory or otherwise, which we might invent (Ibid., 4-5).

Works councils or company unions must be preserved, he concluded, to provide
functioning alternatives to an adversarial, centralised system. As in 1919, Dennison
recognised the rights of workers to organise and join 'outside' unions. Yet at the same
time he wished them to have the opportunity to form works committees or councils to
engender a dialogue and a harmony of interests between capital and labour (McQuaid 1975, 186-187; McQuaid 1977, 90-91). As he said:

(T)he allowance of variety in the form of organization which workers choose for themselves is necessary not only to fit in with the variety of situations we find in this country, but also to provide a reasonable chance for healthy development in the future. I believe that we shall find both forms of unionism essential to this development. ...They are necessarily supplementary, for the one must inevitably overemphasize the communities of interest between employer and employee and fail to re-act with full strength upon the essential divergencies (sic); while the other inevitably tends in just the opposite direction (Dennison 1935a, 4).

As stated in opening, though this idea was subsequently lost on American industrial relations legislators, it was the fundamental model adopted in European (particularly German) and Japanese industrial relations (Admiraal 1997; Kaufman 1993; Fraser 1991).

Though Dennison may not have made a unique contribution *per se* to pure theory in labour economics, his ideas—seasoned by years of practical experience—certainly permeated the theoretical literature. In the context of industrial relations, labour organisation and collective bargaining there was much discussion of these very issues in economics periodicals. In the *Quarterly Journal of Economics* between 1893 and 1906, John R. Commons and Carol D. Wright wrote eight papers between them on the nature and history of American trade unions; Robert Hoxie explored the nature of American trade unionism in three papers published in *The Journal of Political Economy* between 1907 and 1913; and important for the thrust of this chapter, Paul Douglas and Henry Seager both wrote papers on company unions that they published in the *JPE* and the *American Economic Review* in 1921 and 1923 respectively. Later, in 1945, New Dealer and head of the economics department at Chicago, Harry Millis noted, in the context of the evolution of company unionism in the US, that important developments began with the Dennison Manufacturing Company’s employee representation plan inaugurated in 1911, to be explored below (Millis & Montgomery 1945, 832).

Of the latter contributors, Paul Douglas’ 1921 paper, ‘Shop Committees: Substitute for, or Supplement to, Trade Unions?’ struck right at the heart of Dennison’s
dualistic approach to labour organisation and collective bargaining. He was certainly aware of Dennison and his activities as he had made direct references to Dennison in an earlier article and monograph on labour turnover attests.\(^5\) He shared Dennison’s view as regards the need for both company and outside union involvement if bargaining was to be equitable. Managers, he opined, were “in the grip of competitive pressure forcing them to cut costs wherever possible in order to secure trade” and so, “(t)he interests of the workers can ultimately only be protected effectively by an organization of the workmen themselves to resist the pressure for lower wages and sweated conditions brought to bear on them though the market structure” (\textit{Ibid.}, 100). Accordingly, Douglas concluded that

(m)odern industry needs both the shop committee and the trades union, since both are necessary for the effective carrying out of the relationship between workmen and employer. ...The co-operative features of the relationship between employer and employee...need to be developed equally, in order that the size of the pie may be increased as much as possible, and in performing this function the shop committee is invaluable. The relationship between (unions and shop committees), in other words, is properly complementary, and not mutually exclusive (\textit{Ibid.}, 107).

Henry Seager, who was allied with Dennison via their joint membership of the Taylor Society, in his presidential address to the AEA in 1922, expressed much the same ideas regarding company and trade unions as Dennison and Douglas. Whilst company unions are better agents for promoting economy and efficiency and continuity of operation because they establish a “community of interest” between workers and managers, Seager argued, trade unions were better equipped to promote employee interests in the area of wages, hours and working conditions because “they are influenced and dependent upon his (the manager’s) good will for their livelihood”. And so, “the company union is obviously not equipped to contend effectively for better conditions with a reluctant employer” (Seager 1923, 6). He concluded that “(a)s the

\(^5\) The paper in question was ‘The Problem of Turnover’ published in 1918, and the monograph was \textit{The Turnover of Factory Labor} published in 1919, both of which are explored in Chapter Four.
A cooperative employer who honestly regards himself as the senior partner in industry and his employees as his junior partners becomes more predominant there will be less need for the fighting trade union and a larger field of usefulness for the company union, as a step toward true copartnership in industry" (Ibid., 11). Though the line of causality is not clear-cut and is simply not the issue under review here, Dennison's dualistic conception of labour unions honed by his practical management experience certainly filtered into the labour economics literature.

Personnel Management and Scientific Employee Selection

In the previous chapter much mention was made of Dennison's perceptive views on the behavioural base of business organisations and the importance he accorded the individual and the group rather than the structure in the efficient and democratic functioning of organisations. In his magnum opus, Organization Engineering, Dennison devoted more than one hundred pages to the human problems of managerial action and the need to invest in and nurture human resources, paying particular attention to the important motives of security, craftsmanship and the desire for social acceptance.

In addition to focusing on the 'stock' of human resources on hand, Dennison also paid considerable attention to how labour was to be selected and trained and so, was a pioneer in scientific employee selection and personnel management practices. Initially, as Wren (1987, 157-161) has argued, personnel management practices at Dennison, replicated the paternalistic "welfare work" similar to that pioneered by National Cash Register. But in the tradition of Taylor, the Dennison company established a specialist staff function in the guise of an Employment Department in 1914 which was expected to improve human relations and reduce labour turnover both in Dennison Manufacturing (Reilly 1916, 87).

As human relations was discussed at length in the previous chapter, it will suffice at this juncture to introduce Dennison's primary motivation for personnel management.

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6 Though these issues might easily have been included in Chapter Two, as they are of fundamental importance in managing, personnel management and employee selection are both important factors affecting the demand for, and to a lesser extent, the supply of labour.
management—reducing costly labour turnover—as it reflects his overall attitude to the working of labour markets and the place and treatment of employees in industry and commerce. On this note, it must also be mentioned that as with his concerns regarding the form of labour organisation most conducive to equitable collective bargaining, Dennison's pioneering practice in the area of personnel management likewise filtered into the economics literature where Dennison's company was widely lauded for its measures to reduce labour turnover. In this context, Bruce Kaufman (1993, 206 n. 10) has observed that Dennison, like most of the influential writers in what he termed the 'personnel management school' of the 1920s, though they were businessmen or consultants, "nevertheless had close ties to universities and actively participated in scholarly research".

Turning to Dennison's thought on personnel management, according to what he termed 'classical economic theory', the demand for labour services is subject to the judgement of the manager as to whether or not they will yield maximum profit. Accordingly,

\[(e)\text{very manager is required by this theory to discharge or lay off workers when keeping them at work would lessen profits, or most certainly when it would jeopardize the owners' legal control over the concern (Dennison 1936a, 46-47).}\]

Rejecting this notion, Dennison urged his fellow managers to adopt what he termed an "organismic" approach to business in its dealings with labour. Here business should exist not solely to make the most money for shareholders but also to provide "not only a satisfactory living but a satisfactory life and life work for the men and women involved in it" (Ibid., 45). As seen in the previous chapter, Dennison believed that "work, and especially work in an organized group or team, is in itself of vital and preeminent importance, not merely for what it produces but for its values as a means of affording satisfaction, self-expression, and significance to the life of the worker" (Ibid., 48). The means to achieving this approach, he believed, was to modify and compromise upon measures demanded by the classical economic approach and practice "good personnel
management". This approach to labour, he was quick to add, was far from being a threat to the managerial pursuit of maximum returns for shareholders. Personnel management measures "are profitable in the long run through their effects upon the psychology and morale of a working crew of men and women" (*Ibid.*, 48). In this context, Dennison summed up his approach to personnel management thus:

In order that work and worker may be as far as practicable matched, that the type of work a man is put upon may give as good a chance as the modern system allows for his natural aptitudes to find self-expression, a great deal can be done in the way of more careful selection to avoid the driving of square pegs into round and uncomfortable holes. ...(A) considerable degree of satisfaction and self-respect can be added to the worker's lot if the supervisory force is capable of intelligent handling of the men and women who work under it (Dennison 1936a, 48-49).

In practical terms, Dennison viewed the important function of personnel management as a composite task involving scientific selection and assignment and training and continuous education (Dennison and Keir 1930). The Employment Department at *Dennison Manufacturing* achieved this

(a) by making a careful scientific study of the requirements of occupations using job analysis and time and motion studies

(b) by engaging persons who could best meet those requirements and ensure they are adequately instructed and trained

(c) by transferring to other occupations promising employees unsuited to the initial task

(d) by heedfully noting the reasons given by employees for voluntary quits to isolate a common cause of dissatisfaction (*Ibid.*).

In pioneering fashion, selection and assignment at *Dennison* was a compound of the opinion of a trained interviewer supplemented by physical examination and appropriate psychological testing. Training and education was the function of a line executive in conjunction with a specialist Educational Advisor and in consultation with the Works Committee. Workers were trained not only for specific tasks up to managerial grade, but also underwent continuous and wider education for the various positions in the
management scale to complement the Dennison system of management sharing (Dennison and Keir 1930, 43-50).

Dennison's commitment to community service led him to actively promote progressive personnel management practices, tried and tested at his own company, at a higher level. He urged the recognition and adoption of progressive human relations and personnel management practices amongst students of management and his fellow managers through organisations such as Employment Managers' Associations, the Bureau of Personnel Administration, the American Management Association, and the Taylor Society. For example, at an Employment Managers' Conference in Philadelphia in April 1917, Dennison read a paper entitled 'What the Employment Department should be in Industry'. Here he urged those charged with personnel management to restore the "joy of work" emanating from what he called "that fundamental human instinct, the instinct of workmanship", and also to build up "the spirit of democracy" in industry. Regarding the latter, Dennison stated that there were two essentials in building industrial democracy as it concerned personnel management:

First, for an open and equal opportunity for everyone to reach the highest possible position he is fitted for...; and second, for responsiveness in the leader - the keen awareness of the leader to the feelings and thoughts and spirit of the people he is leading (Dennison 1917, 6).

Further, and in the spirit of his management/organisational economics explored in the previous chapter, he urged the managers assembled to recognise that "the best employees, the one's you want, do not live for or by bread alone" and that "(s)omething more than the idea of the money return has got to be in a company if they are going to get the best men" (Ibid., 7). It was the responsibility and opportunity of managers, Dennison opined, to rebuild human contact in industrial concerns and humanise industries. "You will give the corporation a soul, which it ought to have" (Ibid.).

Dennison also attempted to see the adoption of these practices in government agencies and the public service. From 1921 to 1927 he served as Executive Director of the Service Relations Division of the US Post Office, a voluntary position wherein he
sought to 'humanise' the postal service and improve labour and customer relations. In this context, it is enlightening to consider the reaction of the secretary of the National Association of Letter Carriers, E.J. Cantwell, to Dennison's appointment to this position. Of Dennison, Cantwell remarked:

He is a man of progressive mind and has a national reputation as an advocate of employee representation. ...Because of his broad sympathies and understanding of human nature, the Service Relations Division has constantly moved forward under his leadership (Cantwell undated; Post Office Folder, Dennison Papers).

Similarly President Calvin Coolidge personally wrote the Postmaster General regarding Dennison's work to "humanize" the postal service stating:

I am delighted that you have found a man so eminently fitted for this rather difficult station. I know Mr. Dennison, of course, and am sure that you will give him your cordial cooperation and support. Personally, I have been much interested in the plans which he has worked out (Coolidge 1924; Post Office Folder, Dennison Papers).

In this capacity as Executive Director of Service Relations for US Post and in an unpublished speech before the National Association of Letter Carriers in 1923, Dennison outlined his broad theory of management-labour relations. Carrying on from his human relations insights, Dennison highlighted the philosophical schism between "those who believe that the job of filling the needs of life will always be drudgery, and those who believe that the day's work can be studied through persistent experiment and can be made as significant and satisfying a part of life as home and family" (Dennison 1923b, 6-7). On this note, Dennison was particularly critical of Henry Ford's treatment of labour:

In a word, Ford seems to believe it useless to expect any real satisfaction in the day's work...the disagreeableness and monotony of the task, or the distastefulness of the surroundings, are of little importance if they do not interfere with cheap production... (Ibid., 7).

The opposite school, Dennison continued, have made personnel management a special study and believe that it is natural for humans to derive pleasure from productive work if
the conditions are appropriate. In words almost identical to those of F.W. Taylor, Dennison stated that

(t)he sharpest challenge ever put to the human race is the challenge of today to us to learn to fit men together so that each man gives of his special ability toward a common goal with a minimum of internal friction and lost effort. We have learned within the last 100 years wonderful things about putting metals together into smooth running, productive machines; we have it now to learn with respect to men (Ibid., 10).

And so, for him

the labor problem is really a great engineering problem... (O)ur engineers have found in the past that patient, impersonal, cool and fair-minded study of the elements will sooner or later yield us the thread which leads to the solution. I believe management to be a profession, based upon the science of human psychology; capable of advancement precisely as the medical science is advanced, by careful study, bit by bit of its elements. If the problem, then, is one of study and research into the best ways of fitting means to ends – instead of attempting to compensate and palliate a deadening, driving autocracy – the whole face of the situation changes (Ibid., 11).

Further in the speech, Dennison addressed the issue of worker representation and industrial democracy, topics to be dealt with in more depth later in the chapter, stressing that workers be accorded a definite status or standing in industry which meant, first, that labour be recognised "as an important factor in industry"; and second, that labour "be given an official channel through which (they) may take (their) proper part in the governing of the industry". He continued:

If, then, this is important to him (the labourer) and to society, the other two factors of production, capital and management, must extend to labor the recognition that the status implies (Ibid., 13).

These beliefs would become manifest, particularly after meeting with John R. Commons, in Dennison's extension of management and profit sharing to his rank and file employees in his company.

That Dennison's concerns with personnel management was also of interest to labour economists of the period is evidenced by a cursory glance at the literature. In the *Annals of the American Academy of Political and Social Sciences* (not indexed by the AEA's *Index of Economic Journals*) in 1915, 1916 and 1917, one can glean papers
directly addressing personnel management and the function of employment departments in reducing labour turnover including papers by Joseph Willits and John S. Keir\(^7\) from the Wharton School at the University of Pennsylvania, Simon Patten also from the University of Pennsylvania, by Harlow Person\(^8\) from the Amos Tuck School at Dartmouth, by John B. Andrews a student of John R. Commons and secretary of the American Association for Labor Legislation, and also by scientific managers Henry Gantt and Morris Cooke. Similarly, Paul Douglas and L.C. Marshall from the University of Chicago and Harvard’s Sumner Slichter contributed papers addressing personnel management in the *JPE* towards the end of the first decade of the 20\(^{th}\) century.

And though the subject of more intense investigation in Chapter Four, it should be noted here that Dennison’s pioneering personnel practices as a means of reducing labour turnover and ameliorating unemployment was also a subject of much interest to the leading labour economists of the time, all of whom directly cited Dennison and his company’s practice. For instance, Paul Douglas in 1918 discussed the *Dennison* company’s employment department and its role in reducing labour turnover (Douglas 1918); in 1919, Sumner Slichter published his doctoral thesis (supervised by Harry Millis) on labour turnover which widely cited the *Dennison* experience in this context (Slichter 1919); British labour economist P. Sargent Florence, in 1924, cited the *Dennison* company's efforts to reduce labour turnover (Sargent Florence 1924); and monographs by Edgar Furniss and Paul Douglas, in 1925 and 1931 respectively, drew heavily upon Dennison’s practice to combat cyclical unemployment (Furniss 1925; Douglas & Director 1931).

Sumner Slichter, a labour and business economist, in a paper entitled ‘The Management of Labor’ written in 1919 applauded Dennison's actions in separating the responsibility for the formulation and execution of labour policies from responsibility for manufacturing, output and costs in the guise of a specialist executive employment

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\(^7\) Keir later became a *Dennison* company economist and eventually succeeded Henry S. Dennison as President of the company.
manager. The latter is needed, argued Slichter, to ensure that labour management is conducted "with a keen realization of the workmen's point of view and an accurate understanding of their psychology" (Slichter 1919, 823). Slichter further opined that

(i)n order to win the good will of the men, an official is needed of sufficient authority and importance to impress his attitude upon the spirit and fundamental policies of the enterprise, whose sole responsibility is the administration of labor, who represents the interest of the enterprise in the good will of its workmen, and one of whose principal functions is to cultivate this good will. ...By representing the long-run as opposed to the short-run point of view the labor administrator tends to be a protector of a valuable asset - the good will of the workers - against tendencies to dissipate it for immediate but temporary benefits (Ibid., 818-820).

Paul Douglas echoed these sentiments in a paper entitled 'Plant Administration of Labor' in the JPE in 1919. Like Dennison, Douglas argued that "(b)oth industry and men entering should realize that it (management) is a profession" and that key lessons of the war planning experience were that "the proper handling of labor was necessary in order to realize maximum efficiency". Thereafter, "(l)abor became a production problem which challenged the attention of employers and manufacturers" and brought their attention to inefficiencies such as output restriction, absenteeism, labour turnover, and the lack of full and accurate estimates of the number and kinds of workers required for continuous operation. These factors, he argued further, "convinced managers of the necessity of creating functionalized employment departments" to allow increased specialization and division of labor in the hiring and maintenance of the labour force, and allowing foremen to "concentrate upon supervising and directing production itself" (Douglas 1919, 546-548; 551).

Leon C. Marshall in the JPE in 1920, similarly echoed Dennison's concerns with the place of the personnel manager in modern industry, who must have a vision which is almost statesmanlike for upon the them falls the welfare of all society. Like Dennison he believed that "men must be brought work together both as parts of a plant

8 Person was also a long-time managing director of the Taylor Society.
and as parts of society” and that “(a) portion of the responsibility for accomplishing this falls to the lot of the personnel manager...whose function is that of getting of aiding in getting men to work together effectively” (Marshall 1920, 718-720). The latter is achieved, Marshall argued, by the use of sound incentives and an appreciation by the personnel manager of “the whole setting of the relationship of incentive to output, both historically and psychologically, if he is really to unlock the ‘will to do’” (Ibid., 722). Though F.W. Taylor sought a wage which was “psychologically correct”, Marshall concluded, wage alone will not bring contentment in a society ruled by specialised, impersonal relations.

Wage alone cannot bring men to work together effectively. It, unaided, will not remove sourness, suspicion, and hostility. Powerful as it is, valuable as it is when wisely used, it must be linked with forces making for pride of workmanship, interest in work, knowledge of worth-whileness to society, security of economic and social position, and sense of responsibility, before we shall unlock those vast resources of human energy which now lie dormant because we have not given thought to the fashioning of keys which will free ‘the will to do’ (Ibid., 728).

Writing in the same year, Sumner Slichter in the QJE referred to these issues as “the paramount managerial problem of the day”. Citing the “shift in economic power from capital to labor which has accompanied the war”, Slichter argued that when output is dependent primarily on labour’s willingness to produce rather than on manager’s ability to compel production by threats of discharge, “managers no longer can afford to regard labor’s lack of interest in production as more or less inevitable” but must harness and improve “industrial morale”. Improving morale, he argued further, is fundamentally a problem of industrial organisation and involves bringing workers “inside” as regards sharing control and direct participation in prosperity.

Workmen cannot be expected to feel the maximum interest in the affairs of industry and the greatest willingness to cooperate in order to promote its prosperity, unless they are able to identify themselves with industry, to feel themselves part of it, insiders in it, and to feel a sense of ownership in it. The feeling of belonging to a thing appears commonly to induce a feeling of ownership toward it (Slichter 1920, 57).
On this note, Dennison was a pioneer advocate of management and profit sharing both in his writing and practice, a topic to which the discussion now turns.

**Employee Participation in Management: Works Councils and Management Sharing**

As his opinions at the First Industrial Conference attest, Dennison was one of the few employers who did not favor the idea of dismantling the works councils or shop unions established under the auspices of the War Labor Board. In a paper delivered at the University of Chicago in February 1922, Dennison acknowledged the critique of Robert Hoxie regarding the degree of consent in the implementation and conduct of scientific management and observed that

> it is probable that in the further development of the art of social engineering as with the development of scientific management, it will be found impossible to go far along the road without calling upon the help of the employees themselves through their representatives in Works Committees (Dennison 1922i, 10).

The means of formalisation of the committees at the DMC was entitled the Employees' Cooperative Plan (ECP). Members were elected from those workers below managerial rank in each department. Its objectives were outlined in the ECP Constitution as follows:

(a) To inaugurate representatives of employees to co-operate with the management of the Dennison Manufacturing Co.

(b) To promote and maintain just and harmonious relations between the company and its employees.

(c) To expedite the settlement of any matters requiring adjustment.

(d) To further efficiency and production and improve working conditions of the plant.

(e) To meet with management representatives semi-monthly to review and propose any changes in general affecting the co-operation of the management and its employees.

He stated that the utility of the works committee is that it "provides a regularly established means through which every member of the organization can help in the development of constructive policies to improve the efficiency of the whole
organization and to increase the opportunities for happiness of each of its members" (Dennison 1923, 396). In another statement, he opined:

They afford some expression for the instinct of management, and by thus diminishing the restlessness and discontent induced by the monotony of machine work they add to the productivity of the laborer, reduce the chances of careless accident, and decrease the costly turnover which is appallingly large in many industries. They educate the laborer in the principles of government, and develop his capacity for cooperation (Dennison 1923b, 14).

Similarly, in a joint meeting of the Works Committee and Dennison management in February 1922, Dennison explained that the Works Committee is a functional part of our management; that means that there are certain parts of the work of managing which the worker on the job knows more about than anyone else. ...The Works Committee representative is an advisor to the foreman, teacher of the foreman and cooperator with the foreman concerning working conditions and workers' opinions (Dennison 1922j, 3-4).

And elsewhere:

It is as a staff expert that the works committee may primarily be considered. No one knows so much about the particular problems of the worker on the job as the worker on the job. As an advisor on this particular problem, the works committee bears the same relationship to the organization as does the chemist or engineer (Dennison et al 1926, 263).

In sum then, all employees were to 'participate' in management via the formation of the ECP which served in a staff or advisory capacity on matters of employees' interest. With the establishment of the Works Committee—the only scheme of its time in the US—management and worker representatives met periodically to discuss common problems, suggestions for changes in work methods, and grievances and requests of workers. After implementation of the plan, improvements were reputedly made in six areas: the quantity and quality of information flowing from management to workers; the amount and clarity of communication flowing from workers to management; grievance processing; worker impact upon economic benefits granted by management; supervisory leadership; and organisational climate (Duncan & Gullett 1974, 137-138).
It should be noted, however, that no mention was made of employee participation in areas of broader managerial interest, and consequently management continued to exercise an oligarchic hold over company policy. Though employee input increased, "a favored managerial class remained the prime focus of Dennison's liberalizing attentions" (Metcalf 1972, 119). In this regard, Heath (1929, 182) noted that the work committee's recommendations were to be made subject to management approval and so, "the function of the works committee was not to execute but to educate – to form between workers and management a free interchange of ideas and information".

In the context of management sharing, a relatively unexplored event in Dennison's life and an important factor shaping his views on labour participation in management was the fact that he was visited at his company by one of the 'founding father's' of institutionalist economics, John R. Commons. This event represents yet another instance of Dennison's impact on labour economists. Commons wrote glowingly both of Dennison's company practice in engendering 'industrial goodwill' and 'humanising' scientific management, and of his management economics. Moreover, and important for the central thesis of this dissertation, in both Dennison's practice and in his economic thought, Commons perceived an intellectual continuum from Marx to Veblen, from Veblen to F. W. Taylor, and from Taylor to Dennison, in terms of an understanding of the labour process, and the role of what Commons called "managerial transactions" in this process. Accordingly, it is necessary to briefly explore this event.

In the second half of 1919, seeking the 'current best practice' in labour relations, Commons and a group of his graduate students visited thirty "going concerns" in order to survey what various business enterprises were doing to improve their labour management policies (Gruchy 1947, 148-149; Wren 1987, 175). The conception of management held by Commons and his students was that it involved not only the entrepreneurial task of "promoting" or financing the business, but also "the active and continued cooperation of labor, capital, and land, the agencies in production". This was part and parcel of Commons' notion of engendering 'industrial goodwill' and it
represented "government, and it is active management which constitutes the government of the going concern" (Commons et al 1921, 275). The outcome of this fieldwork was *Industrial Government* published in 1921, and so it was that Commons and his PhD student Alfred Haake visited the Dennison plant at Framingham in early September, 1919.

In all likelihood, Commons had probably made Dennison's acquaintance much earlier as part of both men's involvement with the National Civic Federation and the American Association for Labor Legislation. Their most recent point of contact, however, was the Taylor Society over which Dennison at that time presided and to whose membership Commons turned for prospective companies to survey – sixteen out of the thirty companies eventually surveyed were managed by Society members. Commons was greatly impressed by what he saw at *Dennison Manufacturing*. He applauded two of Dennison's principal and related industrial policies: buying out absentee owners, and selling shares to the active 'government' or management of the company. He did, however, express concern that the Industrial Partnership Plan at *Dennison Manufacturing* did not extend below managerial ranks to the workers. This is borne out by a letter Dennison wrote to Edwin Gay on September 23, 1919 where he began by stating that his mind was clearer regarding the issue of profit sharing,

especially after the talk with John Commons, who visited here a couple of weeks ago. Commons said he thoroughly agreed with our views (to my surprise), agreed to the fundamentals of the Industrial Partnership plan, but in spite of all that he was concerned that there must be some sort of device [for] Profit Sharing. Of course he agreed with our management sharing idea but kept feeling that the employee also must have a stake (Dennison to Gay, Gay Papers – Huntington Library).

That both Commons and Haake were impressed by Dennison's labour policy is made abundantly clear in *Industrial Government* where Commons refers to Dennison's "emancipation from absentee ownership, and government by the imaginative minds

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9 More will be said on the American Association for Labor Legislation in the next chapter.
active in the business" (Commons et al 1921, vi-vii). Haake, whose impressions of the 
Dennison company were chronicled as part of his PhD dissertation was even more 
salutary, exploring the evils of absentee ownership and applauding the attempts of 
businessmen like Dennison to undermine the financial clasp of absentee owners on 
company policy. Like Dennison, Haake stated that absentee stockholders are not part of 
active management as their task is the one-off risk of advancing funds and hiring the 
management. They do not exercise the "creative imagination, the organizing and 
executive ability" to "maintain the requisite proportioning of effort within a going concern" (Commons et al 1921, 282-283; 300).

Citing the need to "buy capital off" as the remedy in this regard, Commons and 
Haake applauded the Dennison company both in this context and for its management 
sharing program that was "setting a new mark in industrial development". They 
observed that with Dennison's reclassification of shares and his sale of common stock 
with voting power to managerial employees, ownership was effectively transferred to 
"those whose creative imagination and management produced the profits" (Commons et al 1921, 300-302). They were of the hope that Dennison's example would convince 
enlightened managers to do likewise:

There is encouragement...in the example of a man like Henry Dennison. The far-seeing owner who is also an active manager, who has sufficient breadth of vision and depth of human understanding will, in many cases, follow the lead of the president of the Dennison Manufacturing Company (Commons et al 1921, 303).

Commons' approval of Dennison's activities did not end here, but continued in 
his lectures on Capitalism and Socialism at the University of Wisconsin in 1923. He 
also drew on his visit to Dennison Manufacturing later in Institutional Economics, 
published in 1934. This is a crucial point in the context of the central objective of the 
thesis, for it represents an explicit recognition by one of the 'founding fathers' of 
institutionalism of Dennison's contribution to this 'school' of economic reasoning. 
Commons was of the belief that transactions were the basic unit of economic analysis, 
however his immense influence on the lineage of 'new' institutionalism from Coase to
Williamson. Commons was critical of mainstream economists for their apparent ignorance of the "managerial transaction" (between legal superior and inferior) as opposed to the "bargaining transaction" (between legal equals), especially in the context of the employment relationship. He was of the belief that mainstream economists left little scope for the place of authority in the two-sided aspect of the exchange of the labourer's product for wages owing to their overemphasis on the "bargaining transaction" side of the labour process. In other words, they failed to fully appreciate "the managerial transaction of command and obedience" where the worker is reduced to the "bundle of mechanical labor-power of Ricardo and Marx" (Commons 1959, 65-66).

Commons continued stating that the centrality of the managerial transaction was appreciated by Veblen in his "instinct of workmanship"—what Commons called "the customs and law of managerial transactions"—save for the fact that Veblen replaced exchange and materialism as the subject matter of economics with the "acquired habits of the instinct of workmanship headed by engineers". This would ensure efficient use of resources. Concurrent with Veblen's work, Commons continued, was the work of Taylor and the scientific management movement which redefined the managerial transaction yet again. Like Marx and Veblen, he observed, Taylor excluded from his focus the so-called productive factors like land and capital "which confused the physical economists' notion of productivity" and concentrated on the relation between output and labour. This was productivity or efficiency and it was here, he believed, that Taylor "restored the labor-theory of Ricardo and Marx" and so, led him to conclude that "economics is reduced to the engineering problem of man's relation to nature" (Ibid. 66; 670-671).

The most eloquent and "up-to-date" analysis of the scientific management conception of the managerial transaction, Commons stated repeatedly, was contained in the "humanitarian" approach of Henry S. Dennison. He believed that Dennison's approach to management, with his emphasis on personnel management, management sharing and works committees, supplemented the commodity and machinery theories of labour held by the mainstream economists and scientific managers respectively, and
represented a positive means of engendering industrial goodwill or what today might be called organisational culture (Gruchy 1947, 174). As Commons said, "(i)t is a beneficial reciprocity of wills, ...the soul of the going concern, the value of the unity and collective personality that binds together all its parts in a living organism" (Commons 1919, 19-20). He also believed that this intangible notion of goodwill was "a matter of science" and cited Dennison's "Job Analysis of Managing" as presented to the Taylor Society in 1924 (Dennison 1924). Commons attempted to convince the Taylorists, in particular Morris Cooke, of this fact by sending them copies of *Industrial Goodwill*. In this context, he believed that scientific management without the humanistic approach of Dennison was inherently autocratic.

The central point is that Commons was of the belief that Dennison and his activities at *Dennison Manufacturing* had solved the problem of the managerial transaction inherent in the labour process, where Marx, Veblen, and Taylor before him had failed owing largely to their excessively technologically deterministic emphasis on production processes (Gruchy 1947, 182). For Commons, the problem was one of effective management:

Increasing efficiency creates a surplus without increasing fatigue. The capitalist should share it with the laborer, but the latter is not entitled to it if he gets the going rate of wages. It is not a question of rights, it is a problem of management.

Therefore, he continued,

(for the next step in the transition from Marx's metaphysical social labor-power, Veblen's biological instinct of workmanship, and Taylor's mechanization of labor, to the social problem of managerial transactions, we turn to Henry S. Dennison, the employer owner-manager. ...Dennison, like Ford, had bought off the claims of shareholders, and [went] further by making the election of directors and managers a function of the upper group of "worker-owners" instead of the "investor-managers". Here, management is not only the engineering science of Taylor, nor only the workmanship and authority of Veblen and Ford. It is a volitional process, a transaction between foreman and operative, where neither the worker chooses, nor the foreman chooses, but the choices are "joint devices" (Ibid., 671-672).
In conclusion, Commons believed that Dennison stood at the end of an intellectual continuum going back to Marx, through Veblen and Taylor, in the evolving conceptualisation of the managerial transaction in the context of the labour process and in the appropriate function of management. The fact that Commons believed that "Veblen's instinct of workmanship afterwards resolves into Dennison's 'reasonable' managerial transaction" *(Ibid., 672)* is a crucial testament to Dennison's contribution to institutional economics and one that has not been hitherto explored.

**Profit Sharing**

Commons also made an impact on Dennison's evolving conceptualisation of profit sharing. One of the major issues the *Dennison* Workers' Committee tackled was that of extending the Industrial Partnership plan to those individuals below managerial rank so that workers could share in both management and now, *profits*. Dennison's early views on profit sharing, articulated in a March 1918 issue of *Factory*, focused exclusively on sharing the surplus with managers. Here he noted that profit sharing was *not* a panacea for the labour problem, yet it could, and should, be used to bring about "the distribution of surplus more nearly in accord with desert" and "the prevention of untrained or absentee control" *(Dennison 1918, 424)*. As he further opined, "(t)he assignment of profits with no regard for desert, or of voting rights without regard for ability, works against the satisfaction of the worker and the efficiency of management" *(Ibid.)*. He further articulated his views on profit sharing in a special edition of *The Annals* in 1920 edited by Samuel Gompers, Morris Cooke and Fred Miller. In this paper, entitled 'Production and Profits', Dennison stated that though the influence of production on profits had received wide attention, the opposite causal relationship, of profits on production had not really been explored. He continued, stating that the "influence of the distribution of profits upon the primary agent of production is a challenge to all men interested in the profession of management". He observed that "the final disposition of the profits arising in connection with his (the worker) efforts" is a "very real force spurring him on or holding him back". And further, that "a normal human being will
find his efforts lessened by the knowledge that he is also increasing an already liberal
return to some absent stockholder; or will be moved to demand a larger share for
himself and to stop work in support of that demand".

In other words, Dennison believed that profit sharing had the potential to bring
about two important results for the management of labour: an increase in productivity
and a decrease in industrial conflict. Accordingly, he noted that for the manager, the
corporate structure "is as much a matter for scientific planning as are the foundations of
his buildings and furnaces", and recommended that such a structure should "provide for
appropriate return to capital, some degree of managerial partnership, some real
provision for the voice of the employee to be taken into account in settling the problems
which vitally concern him and a corresponding share to the employee in the ups and
down of the corporation's profits" (Dennison 1920b, 159-162). For Dennison, neither
profit nor management sharing was complete without the other:

The 'industrial partnership plan' has never been and was never meant to be
primarily a profit sharing plan. It is first a management sharing-plan.
...The theory of this phase of management is based upon the concept that
absentee control is entirely to be avoided (Dennison et al 1926, 262-263).

And further,

(man)agement sharing is the natural companion of profit sharing. Only
with a reasonable opportunity to participate in the problems of
management to the extent of the knowledge and ability of the profit sharer
can the full fruit of profit sharing be garnered" (Ibid., 271).

But he was adamant that stock ownership and managing were not the same thing. This
surfaced clearly in a discussion by Dennison of Harvard economist Thomas N. Carver's
treatment of employee stock ownership.\textsuperscript{10} He believed Carver was wrong in asserting
that stock ownership or "making workers owners of capital" allowing them to exercise
voting rights was tantamount to "managing". Drawing on the experience of his own
company's stock ownership scheme he stated:

\textsuperscript{10} As part of the 1925 lecture series at the Bureau of Personnel Administration mentioned in the previous
chapter.
(W)e can hardly agree with Dr. Carver's implication that investing and managing come to much the same thing. Management to these workers' representatives as to me is a very real and definite function. It is simply not true that capitalists manage if they merely hire management, any more than that they labor if they hire laborers. Anyone who has had a glimpse of the inside workings of stockholders' voting will seldom claim that in the ordinary view of things capitalists as such, and in proportion to their holdings, really even hire management (Ibid., 271-272).

For Dennison, management was not solely the risk-taking of financiers, but a profession informed by science and in the service of society. Partnership is not just buying shares but "playing a part in the game" and being involved in a mutual relationship of humans "not of dollar bills" (Ibid., 272).

The amended and more democratic profit-sharing scheme at DMC was called the Employee Industrial Partnership Plan and it proposed that workers with three or more years of service be eligible to a share in a fund constituting one-third of surplus profits each year after payments to preferred stockholders and managerial partners had been met, and that it be distributed in the form of non-voting, non-transferable stock at a rate varying with the length of service. Furthermore, this share in profits was not to be considered as a wage incentive for workers who just produce more output, but it must be earned by a contribution over and above ordinary efforts put into daily tasks. According to the Committee, "(t)he funds distributed are an award of extra effort, saving of waste, and whole-hearted co-operation, and are entirely distinct from and in addition to regular wages" (cited in Meine 1924, 158).

Dennison's 'revised' view of profit sharing, which as suggested above was influenced by Commons' comments, appeared in Profit Sharing and Stock Ownership for Employees published in 1926. This was a revised version of a 1918 joint publication and it opened in preface by stating:

The profit motive is a strong force. It may well be utilized in some one of its manifold forms as an agent of efficient management and of social betterment. But the point of this book is not only that it can and should be so used, but that its application demands an understanding of its principles and an analysis of the situation it is meant to fill.
Though not in case-study form, the book was based on a thorough consideration of profit sharing experience at relevant firms.\footnote{The authors, other than Dennison and Gay, included two other Taylor Society members, Gorton James and Henry Kendall. James shared an office with Gay in the Department of Economics at Harvard and was also an instructor at the Business School. Kendall was a Boston industrialist and later became president of the Taylor Society in 1928.} For Dennison and his co-authors, the distribution of shares of net profits among some or all of the employees of an organisation, though lacking theoretical or philosophical justification in terms of personal right in either the competitive or communistic economic schema, may be perceived to be just or socially expedient if it proves the desirability of its influence on employees. This proof is manifest "through increasing production, decreasing costs, strengthening the organization or enhancing 'good will' as part of good management thus indirectly benefiting society as a whole" (Dennison \textit{et al} 1926, 25-42). In other words a share in profits was not to be conceived in paternalistic terms. Dennison opposed paternalistic welfare schemes throughout his lifetime. His social philosophy, expounded in various quarters, both published and unpublished, centred on the bilateral nature of rights and duties. For Dennison, "in all relationships either between individuals or between an individual and society, there must be a \textit{quid pro quo}. Rights and duties are reciprocals" (\textit{Ibid.}, 34). In the context of profit sharing, for Dennison

(a) right to share on profits connotes a duty to perform such acts as will lead toward certain achievement of ideals either by individuals or society. It is argued, for instance, that profit sharing as a device of management stimulated productive efforts, or strengthens productive organization, and thus its use is good for society in raising the standard of living (\textit{Ibid.}).

Dennison stated that the purpose of the volume was "to discover to what extent and in what specific applications this social device assists or fails to assist in securing more productive management, and thus serve this end of social justice as above defined" (\textit{Ibid.}, 34). Following in the philosophical footsteps of Taylor and his attempt to demonstrate the mutuality of interest between labour and capital, Dennison explained how profit sharing could raise productivity and improve the employment relationship.
Profit sharing, he explained, instilled a sense of mutuality of interest and responsibility among members of a productive organisation:

"If each member of an organization is to participate in the net financial result of the combined efforts of all, then each one will not only be spurred on by interest in his individual reward, but will also be stimulated by his feeling of responsibility to the rest of the group and so will actively help to spur on others (Ibid., 51)."

Like Taylor, this insight proved Dennison to be far ahead of his time in terms of how he viewed motivation and organisational psychology, a point explored in the previous chapter. Clearly Dennison realised that pecuniary reward was not the only impetus to human effort, but that there was also the need for a sense of belonging and collective responsibility; that is, teamwork. Further, Dennison believed that employee participation in ownership may also ameliorate class conflict and result in a closer realisation of industrial democracy (Ibid., 103-104). As with his other contributions to labour economics, Dennison's management and profit-sharing arrangement became the focus of a study conducted by the National Industrial Conference Board published in 1928, entitled Employee Stock Purchase Plans in the United States.

Conclusion

Examining Dennison's continued elevation in the public service arena, particularly his involvement with President Wilson's First Industrial Conference in 1919, provided an insight into his labour economics. Here, Dennison emphasised the paramount importance of both company and industrial or 'outside' unions in collective bargaining as an institutional check in the operation of labour markets to ensure the equitable distribution of wealth. In this context, he formalised company unions and established a management sharing program at his company, the latter being applauded by John R. Commons upon his visit to the company in 1919.

Important for the central claim of the thesis, was the fact that Dennison's practice, and his resultant ideas, filtered through into the thinking of the leading labour economists of the period. Papers by Paul Douglas, Sumner Slichter, and Henry Seager
in the areas of company unions and personnel management reveal the degree to which the ideas of Dennison and like-minded business managers shaped the labour economics literature of the time. This is more salient in the fact that John R. Commons wrote glowingly, in his monumental *Institutional Economics*, of Dennison's labour economics and perceived in both Dennison's analysis and his company policies, an intellectual continuum from Marx to Veblen, from Veblen to Taylor, and from Taylor to Dennison, in terms of an appreciation of the labour process and the centrality of 'managerial transactions' in this process.
CHAPTER FOUR

BUSINESS AND EMPLOYMENT STABILISATION: DENNISON'S BUSINESS CYCLE THEORY

After his participation in the 1921 (Unemployment) Conference, Dennison took up the study of business cycles in earnest. The combined impact of the Dennison Manufacturing Company experiments, statistical work for the wartime governmental agencies, and renewed interest in business stabilization at the 1921 conference led Dennison into the heart of economic research.

Patrick Reagan (1982)

At the beginning of the 20th Century in response to the enormous technological and organisational changes in the 'scale and scope' of the American economy from the Civil War onwards, a new awareness of the economic benefits of stabilising the business cycle emerged amongst the American business community. Moreover, some companies attempted to devise measures to stabilise their own production and employment over cyclical and seasonal fluctuations. These were embryonic attempts at managing the business cycle at the level of the microeconomy or the firm and have been variously conceptualised as a many-faceted movement for the regularisation or stabilisation of business. In essence, business stabilisation attempted to ensure the continuous production of the largest possible flow of consumption goods and services. The genesis of this movement owed a lot to the evolving recognition of overhead costs, an interest heightened by the development of a methodology at the disposal of managers for recognising and reducing these costs (Metcalf 1972, 51).¹

Henry Dennison was a central figure in the business stabilisation movement, pioneering many of the techniques designed to insulate the output and employment of firms against the more damaging aspects of cyclical (and seasonal) downswings. Many of these techniques went hand-in-hand with his efforts in the area of personnel management.

¹ On the latter note, the development of cost accounting rooted in the work of F. W. Taylor and his engineering disciples figured prominently. Metcalf has argued that advocates of regularisation, many of whom were members of the scientific management community, agreed with Taylor's insistence that most businesses were not operating at optimum efficiency because of their ignorance of overheads, which were at the heart of the cost to the firm of fluctuating output and employment (Metcalf 1972, 51-52; 71).
discussed in the previous chapter, particularly those focusing on reducing costly labour turnover. As with his other contributions to economic thought, Dennison's business cycle theory evolved from his practical experience as a business manager trying to cope with the effect on his company's fortunes of the swings of the cycle and from his involvement in the American Association for Labor Legislation. His theory was refined following high level public service as an economic and industrial consultant to government and after liaising with the leading business cycle theorist of the time, Wesley Mitchell.

As with his contributions to organisation and labour economics, Dennison's micro-based theory of business cycles diffused into the wider economics community. And again, the precise nature of his contribution to business cycle theory can be gauged from the degree of influence his ideas generated amongst the economics profession. His intuitive and pragmatic cognisance that cycles were not the inevitable consequence of some mystical *deus de machina* and his belief that the seeds of cyclical downturns were planted in prosperous times was reminiscent of Mitchell's pioneering work at the turn of the century. Moreover, his insistence that much could be achieved in smoothing the cycle at the level of the firm was a notion later embraced by Mitchell who, hitherto, had focused almost entirely on a macro theory of the cycle.

This chapter begins by outlining the economic basis of business stabilisation and then turns to the origins of Dennison's business cycle theory. It then explores the nature and significance of Dennison's contribution and peruses the business cycle literature of the 1920s to illustrate the impact of his theory on the wider economics community, particularly the part he played in Mitchell's evolving embrace of a micro-based theory of the business cycle to supplement his own macro conception.

**The Economic Basis of Business Stabilisation**

During the period preceding the genesis of the business stabilisation movement, roughly 1870 to 1914-1915, the basic elements comprising the costs of cyclical fluctuations to firms—fixed or overhead components of labour and capital—rose sharply. As scholars like Chandler (1977; 1990) have highlighted, this was because the mechanisation
prompted by the so-called 'Second Industrial Revolution' necessitated not only extensive and costly capital outlays on plant and machinery, but also the hiring of a class of salaried managers to coordinate and administer the modern business enterprise. Though this 'visible hand' of salaried managers largely supplanted the transaction-costly market mechanism in the industrial heartland of the US economy, these managerial hierarchies or 'technostuctures,' as they were later called by Galbraith, carried large overhead costs of their own. Furthermore, as Metcalf (1972, 149) has highlighted, "(t)he increasing proportion of work performed by semi-skilled labor, which had to be given specific training by individual firms to operate their specialized machinery...(was also) related to the technological trend broadly described as 'mechanization'."

Given these immense, long-lived investments in human and non-human capital, dramatically transforming capital-labour ratios, making industry decidedly more capital intensive, and increasing the ratios of administrative to production workers and also that of semi-skilled to unskilled operatives, it was realised by many business leaders that it made sound business sense not to 'lay off' these 'factors' during cyclical downturns. Indeed, in the case of machinery and other indivisible capital it was practically impossible to do so. The key economic basis of the business stabilisation or regularisation movement was profitability: the rational business strategy if profits were to be maximised was to regularise business in order to protect these costly investments in the face of the turbulence of the business cycle.

Business stabilisation can therefore be conceptualised as "organisational innovations intended to reduce the costs of instability". These costs are "those factors which make for lower productivity—steep average cost curves—at high and low levels of output" (Metcalf 1972, 52; 53). With large scale or high levels of production, the costs of congestion, poorer quality inputs, and other inefficiencies incurred as increasing amounts of variable inputs are combined with firms' fixed inputs, push average costs up. Whilst at low levels of production, firms' costly fixed inputs are underutilised and overhead has to be borne by smaller output. Furthermore, if these fixed inputs are indivisible, the variable
costs associated with them could not be easily reduced without shutting down operations completely (Ibid., 53-55).

Stabilisation measures, as widely practised in the 1920s, fell into three broad categories. First, the time pattern of demand for an individual firm's product was modified via advertising and other forms of promotion during slack periods, through price concessions conditioned on time of sale, and through diversification into markets with different demand patterns. Second, production rates were made more stable than demand by accumulating backlogs of unfilled orders in busy periods, or producing to inventory in slack periods. And third, investment and maintenance was deferred from peak to slack periods, whilst capital goods were purchased during cyclical downturns (Ibid., 1-3).

Yet while these methods were capable of ameliorating the costs of instability, they bore costs of their own such as those of carrying inventory (storage, the risk of spoilage etc) and the managerial overhead involved in the greater strategic planning entailed by stabilisation. "These managerial costs", Metcalf (1972, 52) has observed, "involved not only the outlays for administrative personnel etc., but also an accumulation of human capital which could be achieved only through a process of learning-by-doing". To determine an optimal production schedule, then, "involved balancing the gains from reducing fluctuations against the costs of these alternative methods of achieving a given degree of stability" (Ibid., 55).

One of the central considerations of proponents of stabilisation was to reduce the costs of labour turnover. As mentioned in the previous chapter, General Electric executive Magnus Alexander, in landmark studies conducted in 1913, demonstrated that investment in the specialised training of personnel represented a fixed cost especially affected by short-term production fluctuations. Accordingly, it was in managers' best interests to regularise the employment of labour. As Metcalf (1972, 81) opined, "Labor turnover is costly to the firm because of the loss of investment, financed by the employer, in training which is specific to the firm". This was a point later emphasised by John Maurice Clark.
who highlighted that a large part of labour costs were “the return on investment in labor power”.

Training is an investment...(s)pecialized training is like specialized capital – wasted if the possessor shifts his occupation, and partly wasted if he works short of his capacity (Clark 1923, 363).

In other words, labour turnover is costly because of the sunk costs or asset specificity of training personnel – costs that can never be recouped by management if workers quit or are discharged during downturns.

The identification of these costs meant that labour came to be regarded as more than a variable productive factor which could be dispensed with whenever an employer wanted to reduce labour cost; to wit, it should be regarded as a quasi-fixed factor or part of fixed overheads. Walter Oi (1962), drawing on Clark's work, defined a quasi-fixed factor of production as one whose total cost is partially variable and partially fixed in relation to output levels. He identified wages as the largest part of employment costs that are variable. And like Clark, he posited that most firms also incur fixed hiring and training costs which “constitute an investment by the firm in its labor force”. Accordingly, an element of capital is introduced into the labour process so that decisions regarding labour inputs—hiring and firing—could longer be based entirely on achieving an equi-marginal balance between wages and labour’s marginal revenue product (Oi 1962, 539).

Further, and again drawing on Clark, Oi stated that given it is in the firm’s best interest to capture and preserve the rent streams flowing from their investment in training, most training is firm-specific. These rent streams drive a wedge between the wage rate and the marginal revenue product, so that

(i)n the short run, any fixed employment costs associated with the acquisition of a labor force in prior periods are sunk costs; as such they should not effect a firm’s short-run decisions (Oi 1962, 541; emphasis added).

Oi opined that declines in product demand were not sufficient to warrant reduction in employment of factors with what he termed high degrees of ‘fixity’ or ‘sunkeness’. Errors in forecasting product demand and so, derived demand for factors with higher
degrees of fixity or asset specificity are costly to the firm since the surplus now comprises a larger share of employment costs. "In a sense", Oi reasoned, "the periodic rent forms a buffer absorbing short-run variations in a factor's marginal value product" (Oi 1962, 543). Metcalf (1972, 85; emphasis added) expressed this eloquently thus:

For a firm to amortize the fixed cost of hiring and training, the increased productivity of the worker resulting from the firm's training investment had to provide a surplus above his wages over the period of employment. Thus, a third variable affecting the fixed cost of labor was the length of time an employee stayed with the firm. If a worker left the firm sooner than expected at the time he was given specific training, this investment would not be fully recouped. Consequently, it would pay a firm to lengthen workers' tenure by reducing turnover due to layoffs, voluntary quits, or discharges.

Conversely, if the reduction in employment of a relatively sunk factor is greater than the forecasted drop in product demand, then it is again costly to re-employ and re-train (assuming the same factors are not available) those factors.

It is sometimes argued that a firm will maintain its labor force even though the wage rate exceeds the current marginal value product. If the labor has a high degree of fixity, it is to the firm's advantage to maintain its labor force rather than risk high replacement demands in future periods (Oi 1962, 554).

Or as Metcalf (1972, 107) expressed it:

Because of the fixed component of labor costs, a rational firm would try to keep its employment more steady than its demand. A short-run decline in demand would ordinarily shift the firm's demand curve for labor to the left. If the value of the marginal worker to the firm were equal to his wage, then, unless wages fell, employment would fluctuate with demand. Since the worker was worth more than his wage by virtue of the firm's specific training investment, however, it would pay the firm to absorb some short-run fluctuations in demand.

This concern with labour as an overhead cost in the early 20th century was discussed in the previous chapter with the rise and spread of personnel management and employment departments in American firms, with the lead taken by scientifically managed companies such as the Dennison Manufacturing Co.
THEORIGINSOFDENNISON'SBUSINESSCYCLETHEORY

Henry Dennison was a key figure in the business stabilisation movement, a movement that was part and parcel both of the institutionalist challenge to economic orthodoxy and the rise of scientific management. Stabilisation techniques depended on the use of systematic and rational methods of management, and the scientifically managed Dennison Manufacturing Co. was one such enterprise that experimented with these measures as a result of Dennison's pioneering efforts. His involvement in the stabilisation movement became more 'public' as a result of his membership of the American Association for Labor Legislation (AALL). Whilst his business cycle theory emanated from his involvement in the stabilisation scene and was later refined following his involvement in the Economic Advisory Committee of President Harding's Unemployment Conference of 1921, and after his correspondence with business cycle pioneer, Wesley Mitchell. An overview of both these sources of intellectual influence is in order to glean the context in which Dennison's business cycle theory was formulated.

The American Association for Labor Legislation and the Business Stabilisation Movement

Dennison's interest in business stabilisation stemmed from his membership of the American Association for Labor Legislation, organised in 1906 by John Commons and Richard Ely. They were discontented with pure theorising in the realm of economics were committed to finding practical measures to rationalise the institutions of American society (Metcalf 1972, 18-19). The first president of the AALL was Columbia economist Henry Seager and its executive secretary was a former student of Commons', John B. Andrews. The AALL was modelled after similar organisations in Europe and included in its membership many progressive social scientists, social workers and professional reformers. Originally formed to agitate for workers' compensation legislation, it soon became active in promoting a wide variety of labour reforms. Between 1910 and the War, the AALL became the "chief agent in directing the new interest in unemployment into support for a number of specific measures, including unemployment insurance
legislation" (Nelson 1969, 13). Its whole approach to social reform involved attempting to make improvements within the existing system wherein business controlled employment conditions, so that their overarching aim was to recruit ‘progressive’ business leaders such as Dennison. The AALL regarded business leaders as equal partners with government in the fight against the evils of the business cycle. This was termed the ‘New American Emphasis on Reducing Unemployment’ (Feldman 1922a).

On the eve of the passage of the British (Beveridge) unemployment act in 1911, for instance, AALL president Henry Seager published the first important work on unemployment to appear in the US. He argued that because of the weakness of American unions and the absence of adequate unemployment statistics, merely emulating the British act would be fruitless. Instead he urged Americans to embrace those aspects of the British program that could be successful in the USA while concomitantly accepting the need to emphasise the capacity of managers to stabilise output within their individual enterprises. The manager has great capacity to further stabilisation of production and employment, Seager insisted, by the early planning of production, redesign of jobs, and re-scheduling of work processes. All these activities can help to “make production regular and continuous through the year, instead of, as at present in so many industries, feverishly active at certain seasons and almost stagnant at others” (Seager 1910, 94).

Seager worked closely with Dennison, who became a member of the AALL Executive Committee in 1914 and assisted by Andrews, they developed a pre-war stabilisation program for the AALL that centred on employment exchanges, strategic planning of public works, employment insurance and the improved management of firms. Important to the creation of this program were two AALL unemployment conferences, the first of which was held in New York City in February 1914. The depression that began in the winter of 1913-1914 provided the AALL with an opportunity to present its nascent campaign against unemployment to a more receptive public. In his opening address to this conference Seager highlighted the necessity of stabilising employment at the firm level and reported that this was the aspect of the unemployment question that most impressed itself upon his thought (Seager 1914, 311). Conference delegates expressed consensus in
resolutions "that the AALL and its unemployment section investigate and promote public action concerning the labor market (statistics and a system of labor exchange in particular), vocational guidance, unemployment insurance legislation, and the regularization of industry" (Metcalf 1972, 25-26).

The conference revealed to the AALL leaders, and to the wider public, the complexity and severity of unemployment and the potential threat to social stability that accompanied it. This continuing high level public interest prompted the calling, by the AALL in December 1914, of the Second National Conference on Unemployment in Philadelphia. Again, the watchword at this conference, notably in the session on "Prevention of Unemployment", was business stabilisation, with F.W. Taylor's 'right-hand man', Morris L. Cooke, leading the call for a widespread government-sponsored educational campaign to promote stabilisation methods amongst business managers (Murphy 1988, 4; Metcalf 1972, 27). The most significant outcome of the December conference was the drafting of an action program setting the agenda for the AALL's unemployment policy for the next two decades. Under the authorship of John B. Andrews, A Practical Program for the Prevention of Unemployment, had four major planks. The first plank endorsed a national system of public employment exchanges coordinated by the federal government. The second plank recommended countercyclical use of public works by all levels of government to reduce unemployment in downturns. The third plank called for unemployment insurance, modelled on the British system, primarily as a combination of financial pressure and incentives to employers to 'regularise' their workers' employment. The fourth plank called for stabilisation of industry, arguing the benefits to employers, workers, and consumers of a smoother production and employment curve via the efforts of individual companies and industries.

As Murphy (1988, 5) eloquently summarised the reasoning of the AALL:

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2 Seager, Cooke and Taylor were linked due to their ties to the Wharton School at the University of Pennsylvania. Cooke and Taylor joined the AALL in 1913, and upon Taylor's urging, Cooke became Director of Public Works for the city of Philadelphia. Cooke also assisted Taylor on The Principles of Scientific Management. For more on these matters see Bruce and Nyland (1999).

3 This program would subsequently form the backbone of Herbert Hoover's unemployment initiatives of the 1920s.
If employers organized personnel departments to aid in reducing labor turnover, balanced production and sales by "Forward Planning", expanded slack season demand for company products, developed new lines of products, and made similar managerial reforms, unemployment would be less likely. The proposals in the *Practical Program* paralleled the demands of the scientific management and personnel management movements that gained strength around 1914-1915.

The Second Conference revealed the AALL's belief in the efficacy of voluntaristic, microeconomic strategies for attacking the problem of unemployment, and so, the primacy of the private business sector in this endeavor. The American reformers had clearly learnt from the British experiments and accepted Beveridge's argument that unemployment was a 'problem of industry'. Accordingly, they "made the logical deduction that they should look to industry for a helping hand in solving the problem" (Nelson 1969, 11). Progressive employer efforts to stabilise output, sales, and ultimately employment, they believed, held more promise for reducing unemployment than public sector programs with the exception perhaps of unemployment insurance (Metcalf 1972, 31). It is no surprise therefore that the AALL and like-minded reformers looked to progressive business leaders for a model of stabilisation policy. As Metcalf concluded,

> The turn to business reflected the ideological commitment of these reformers to a harmony of interests under a liberal capitalism – the idea that through better management planning and control, unemployment would be reduced at the same time that business would be run more efficiently and profitably (*Ibid.*, 37).

Dennison was one such business figure practising stabilisation measures and so, was an obvious target for the AALL's program. In this context, Metcalf has asserted that

> Henry Dennison was an especially influential advocate of regularization. His influence stemmed not only from his extraordinary energy and the breadth of his interests in the field of economics, but also from the example his company set for regularization (Metcalf 1972, 33).

Furthermore, in accordance with the philosophy of the AALL and other progressive business leaders, Dennison believed in a voluntaristic approach to the problem of unemployment. As he declared in 1922:
The job (business stabilisation and solving the problem of unemployment) is up to us! There is much the government can do; there is much the financial group can do; but the greatest share of the job is ours and if we are going to call ourselves managers, let's put mind and soul to this big task of solving one of the most pressing and vital problems of every industry (Dennison 1922c, 105; parentheses added).

His initial focus in attempting to stabilise employment at his own enterprise, following the example of Magnus Alexander, was along the lines of establishing an employment department and reducing labour turnover. Building on the reorganisation of the sales department begun in 1906 to make it more responsive to the needs of the factory, the Dennison company also introduced a variety of other methods to reduce fluctuations in output, and so, employment. Dennison (1922a, 550) summarised these methods as the following:

1. Long range stock-goods planning
2. Getting seasonal special orders early
3. Adding stock items to supplement specials
4. Developing lines for supplementary seasons
5. Training operatives into supplementary jobs

As with his other contributions to economic thought, honed as they were by practical experience in his company, Dennison published extensively on business stabilisation usually many years after implementing and formalising methods at Dennison Manufacturing. A key paper succinctly capturing the essence of his remedies in this context was one read before a conference of the Boston Employment Managers' Association in May 1916. Here he addressed the function of his company's employment department in reducing labour turnover. Citing Alexander's estimates as to the millions of dollars lost "by the careless handling and treatment of employees", Dennison chided his colleagues for their failure to appreciate "that the employee is a capital asset, simply

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4 Given that the Dennison Manufacturing company's employment department and personnel management was discussed at length in Chapter Three, the focus here will be on other aspects of Dennison's thought as to measures to counter the business cycle.
because the treasurer does not have to write a check for a certain amount to replace that asset after it has been lost" (Dennison 1916, 2).

Yet perhaps the most important of his published works outlining his pioneering remedies was "Management and the Business Cycle" published in 1922 in the Journal of the American Statistical Association. The latter encapsulated the Dennison company's experience with stabilisation and brought to light Dennison's extensive understanding of economic processes and institutions and the crucial role to be played herein by business managers. Like Wesley Mitchell at the level of the macroeconomy, Dennison held that the major tool necessary to assist business planning was timely statistics, well presented and widely distributed, regarding the following: inventories and goods on order; production with the ratio to production capacity; construction begun and underway; weekly earnings and hours; costs; and factors affecting probable demand. With this information at hand, he outlined the following stabilisation methods as practised at Dennison Manufacturing:

(a) Regulating purchases

Upon calculating the maximum and minimum inventories of each important raw material carried, the Dennison company charted over a long period the prices of principal commodities purchased, through which was drawn a secular trend. Parallel to, and a certain distance above and below this trend was drawn minimum and maximum purchase lines, such that actual purchases vary according to the position of actual prices relative to the three lines. The minimum purchase line represented "the smallest amount we dare carry for current needs" whilst the maximum line represented "the most that we consider it wise to invest in inventories".

(b) Regulating fixed investment

To avoid the problem of building fixed assets when they cost the most and finishing them when they are needed least, the Dennison company studied the long-range trend of their

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5 This paper will be discussed in light of Dennison's theory proper later in the chapter. It should be noted that the paper was later revised and republished in 1923 as "The Applied Technique of Stabilization" in an edited volume, The Stabilization of Business which will also be examined below.
business, finding out the normal rate of growth, and building for it. Again, this involved charting the rate of growth for different facilities over a period of twenty years and estimating future requirements during the cycle as a whole. "When building and machinery prices are below the secular trend, we build a little more than up to the normal line, and when they are above, we build less or stop building entirely".

(c) Sales Planning

Noting the need for increased efficiency in selling because of the decline of the sellers’ market in the immediate postwar period and the resultant increase in competition amongst sellers, Dennison then observed that whilst there is still room for progress in reducing factory costs, there is even more room for reducing costs in selling. "The study and analysis of the situation, the planning and looking ahead", he asserted, "are the secrets of keeping sales relatively uniform". In this context, mention should be made of an unpublished speech delivered by Dennison on 'Sales Engineering', on 10 November 1921, to the New England section of the Taylor Society. After a lengthy discussion of merchandising and the strategic place of merchandising management between sales and production, Dennison then relayed his experience with time-and-motion applied to the Dennison sales force. It was discovered that "the salesman is productively occupied on his special job about 15% of the time that he is out" and that half of the remaining 85% of non-productive time was taken up by "getting from place to place". Such that the major planning strategy involved better planning of sales routes and a better knowledge of the market. As Dennison said a month later in a December meeting of the Taylor Society,

Our experience in applying Taylor principles to factory management led us to take preliminary time studies of salesman 'on the job' as an aid to definition of and analysis of the salesman's work. From the time studies taken, we found that our hope of improvement was to be based (as it had been in the factory) on the salesman's being enabled to utilize his time to better advantage as a consequence of more careful planning of his work... (Dennison 1921b, 253).
(d) Merchandise and Advertising Planning

Dennison noted that from his own policy of separating selling and merchandising, and centralising and planning both these departments, "is growing an approach to the sales problem bearing about the same relation to line management which the engineering and the planning department bear to production management (Dennison 1923, 383). He noted that the time to launch new merchandise lines "is not during boom times when the factory has enough orders for lines already established to keep it busy, but during slack periods when it needs the work". Likewise with advertising, "new advertising should also be prepared by manufacturers during prosperity so that it will be ready to launch when the critical moment arrives. ...What is the use of a manufacturer advertising when he already has all the orders he needs? He should save it up, keep planning, and launch the campaign when he needs the business" (Dennison 1922, 29-30).

(e) Employment regularisation

As was explored in the previous chapter, it was Dennison's concern to stabilise employment as well as improve personnel management that led him to establish an Employment Department at the Company in 1914. This department was established, according to the Employment Manager at Dennison Manufacturing, Philip Reilly (1916, 87), to "improve the human relationships and reduce the labor turnover of the industry (a) by making a careful study of the requirements of its various occupations; (b) by engaging persons who could best meet those requirements and see that they were adequately instructed; (c) by transferring to other occupations any promising employees who were unadapted to the first job; and (d) by heedfully noting the reasons given by employees for quitting, so that steps could be taken to eradicate any common cause that was making employees dissatisfied and causing them to leave". As Metcalf (1972, 99) asserted more generally:

Employment managers saw themselves as centralising the personnel functions of manufacturing executives into a new major staff division, comparable to those in charge of finance, manufacturing and sales. Hiring and firing, instruction, promotion, discipline, keeping employment records, and
sometimes even wage determination had traditionally been in the hands of foremen. The employment department was intended to perform these functions more efficiently by giving them to a specialist—Taylor's 'functional foremanship', applied not to machinery and layout, but to the management of the 'human factor'—while leaving the foremen free to concentrate on supervising the shop.

(f) Unemployment Insurance

In 1916 Dennison established the first ever employer-initiated unemployment insurance schemes in American corporate history "which could be used to relieve the pressure upon day workers when times of unemployment would come". On this note, Dennison was most active as a social critic. He believed that "the inability to employ ready, able and willing workers is an unanswerable indictment against our present social system. ...The world is now in need of all sorts of goods, yet we cannot offer men jobs making these goods" (Dennison 1922c, 103). More generally, echoing Taylor's concern with unemployment, Dennison saw irregular employment as an obstacle to the efficient adoption of scientific planning methods and industrial harmony, as he stated:

If workers are likely to be thrown out of employment at any time, you can hardly expect to obtain a very solid spirit of cooperation, you cannot go very far in personnel work. The problem of regular employment is one of the many problems, as I see it, of this coordination of efforts of men. It is the root-problem of better industrial relations (Dennison 1922a, 547).

In this vein, and as discussed in the previous chapter, Dennison was typical of the progressive corporate liberals and economists associated with the AALL in that he believed that because industry was partially responsible for unemployment then it should contribute to the support of the unemployed. "It is better social cost-keeping", he said, "to add the overhead burden of unemployment to those goods which are responsible for irregular employment, than to draw it from the savings of the working group" (Dennison, 1922d, 32). Citing the legislative approach of Commons in the state of Wisconsin, and the private approach of his lifelong friend Seebohm Rowntree in England, Dennison urged experiments in mutual insurance by corporations and manufacturing to stock to
avoid paying relief during depressions. The Dennison Company in 1916 created an unemployment fund, set aside by the Directors out of surplus profits, and accumulated over a period of about five years. First and foremost, as Dennison (1923, 392) noted, "the actual laying-off of any employees shall be avoided whenever possible by temporarily transferring those for whom there is no work to other parts of the plant where there is work" where any loss in wages is to be compensated for up to 90 per cent out of the fund. Where this is unavoidable and there is actual unemployment, employees who are temporarily laid off receive eighty per cent of their regular wages if they have dependants, and sixty per cent if they have no dependants. Both classes of employees, when they secure temporary work outside, are entitled to an amount equal to ten per cent of their outside earnings plus ninety per cent of their earnings with the Dennison Company, the Unemployment Fund being used to make up the difference between this amount and what they receive outside (Ibid., 393).

The Crisis of 1920-21 and the President's Unemployment Conference

In late 1920, the worst US recession in thirty years broke out with unemployment reaching double figures for the first time since the 1890s. This gave new urgency to the search for stabilisation measures, and the questions of cure and restoration of prosperity prompted widespread consideration in public, private, and academic circles. In response to the downswing, recently appointed Secretary of Commerce, Herbert Hoover urged President Harding to stage an unemployment conference to 'mobilise' emergency local relief and reemployment activity. Hoover was especially anxious to develop public support for a long-term program of preventative rather than curative measures. According to Alchon (1985, 71, 77; emphasis added), Hoover and his allies

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6 Rowntree's company, Rowntree and Co. were company members of the Taylor Society. The manager of Rowntree and prolific management writer of the early twentieth century, Oliver Sheldon, was also a member.
envisioned not only far reaching programs of waste elimination and market expansion but also the creation of countercyclical mechanisms capable of producing the data and behaviour needed to control business cycles and maintain macroeconomic activity. (They)...looked upon the Unemployment Conference as the vehicle through which microeconomic regularization and a greater data competence might become instruments of macroeconomic stabilization.

Providing and disseminating better quantitative and statistical information on the domestic economy was one of Hoover's key goals on becoming Commerce secretary. If business leaders were to stabilise output and employment, they would need information on both the macro and micro economy. Hoover believed that the role of the government, in conjunction with social scientists, was to provide economic information and to mobilise managers to use it. One of his first strategies in this context was to develop the Census Bureau into a reliable bureau of statistics. The Commerce Department also began to issue a monthly *Survey of Current Business*, a compendium of production, inventory, and sales data. Hoover's fascination with statistics was built upon, at the micro level, the correction of market failure, namely asymmetric information – no longer would larger firms enjoy a differential advantage over weaker rivals. The spread of statistics would also aid businesspeople to lower costs. At a macro level, regular publication of data would assist stabilisation of macroeconomic activity preventing over/under production (Barber 1985, 8).

The first federally-sponsored conference on unemployment convened in September 1921, Hoover and his secretary, Taylor enthusiast E.E. Hunt, assembling nearly 100 delegates, half of whom were managers, about one-quarter were unionists, and the remainder an assortment of progressive economists, social workers and journalists. He urged Harding to call upon "men representative of all sections, predominantly those who can influence the action of employing forces and who can

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7 In this context, it should be remembered that Hoover regarded himself as a "Scientific Manager of the Economy" and via his role as a high profile engineer and as Commerce secretary, he attempted to engender a scientific elimination of wasteful organisational and production methods through greater production efficiency, lowering prices, raising wages, and controlling business cycles. As Metcalf (1975, 61-62) has noted of Hoover, "as an engineer and a reformer, Hoover approached the ideology of a harmony of interests under liberal capitalism to the problem of macroeconomic management – through more informed and rational management planning and control, unemployment could be reduced at the same time that business would be run more efficiently and profitably".
influence public opinion with a view to proper determination of the facts and needs of the situation" (Unemployment Report 1921, 15). For the first time in US history, a conference of business leaders was called to solve the problem of unemployment. This fixed the problem in the mind of the public not only as a social problem but as a problem of industry.

Of the pre-conference research committees assembled in early September, most members shared with Hoover a belief in the social virtues of technocratic analysis and prescription. Of much importance in this context was the Economic Advisory Committee, an elite body of economic advisors founded mainly of AALL, Taylor Society, and National Bureau of Economic Research members, reading like a 'who's who' of institutionalist economics and Taylorism. It included John B. Andrews; Wesley Mitchell, Leo Wolman; Edwin Gay, Henry Seager, Edwin Seligman, public works advocate Otto Mallery; engineer Sanford E. Thompson; and businessmen, Henry Dennison and Sam Lewisohn. These individuals were charged with forging a program directed to the unemployment problem, but they took the opportunity to push the business stabilisation cause. As Alchon (1985, 78) highlighted, "(e)specially promising...was the chance to focus public and managerial attention on business cycle control and on the way this could be furthered through continuous operation, unemployment insurance, and more knowledge and coordination of labor markets". Dennison's membership in this elite gathering is testament to his pioneering efforts in business stabilisation and his literacy in economic matters.

The conference was intended to amplify and promote the Advisory Committee's recommendations so that the final program was very similar to that espoused by the earlier AALL Practical Program. The participants advocated local and voluntary relief via the organisation of mayors' coordinating committees; they complained of the scarcity of reliable employment statistics; they urged the creation of employment bureaux; and they lent their support to the advance planning of public works, further waste elimination, and stabilisation of employment. At the same time, a Committee on Manufacturers, which included Dennison, Samuel Gompers and S.E. Thompson, presented a report
recommending more part-time work either through time reduction or job rotation and/or sharing; manufacturing for stock; increase plant construction, repairs, and cleaning to transfer employees to other than their regular work; reduce hours of labour; reduce the work week; and cooperation of management and workers in the implementation of these measures (Unemployment Report 1921; 134; Alchon 1985, 78).

The overall flavour of the conference was encapsulated by the general recommendation that "(t)he problem of meeting the emergency of unemployment is principally a community problem". As Hoover stated in his opening address:

It is not consonant with the spirit or institutions of the American people that a demand should be made upon the public treasury for the solution of every difficulty. The Administration has felt that a large degree of solution could be expected through the mobilization of the fine cooperative action of our manufacturers and employers, or our public bodies and local authorities... (Unemployment Report 1921, 29).

And as Runfola (1972) and Fraser (1991) have stated respectively:

The most important emergency relief measure of all...according to the Economic Advisory Committee, was the need for private employers to spread employment by such activities as the undertaking of repairs and improvement and manufacturing for stock. It was also suggested that employers might stabilize employment by the institution of company insurance systems. In terms of permanent preventive measures, the committee found that most promising of all is the opportunity now offered to bring home to the public mind the significance of the business cycles and to enlist the individual enterprise of business managers in the work of regularizing employment within their own establishments.

The Committee on Business Cycles and Unemployment...talked about public policies like unemployment insurance, Federal Reserve credit manipulations, and countercyclical public works. But the emphasis was on microregulation. Private management was to formulate production and sales strategies informed by the latest economic research and with an eye to reducing the fluctuations in employment and business activity.

Despite this spirit of voluntarism so characteristic of Hoover, this does not mean that the conference stood for acquiescence in the face of the extremes of the business cycle. Hoover also stated that "(t)here has been in this Conference the dominating thought that the better control of economic forces was in fact simply the better comfort of our country" (Unemployment Report 1921, 34).
These views closely coincided with those of the institutionalists and the Taylorists, who represented the majority view in the Advisory Committee. Alchon (1985, 78) has noted that "(t)he confluence of Hoover's views with those of his Economic Advisory Committee, particularly Mitchell and Dennison, was never more apparent that in the conference's insistence that the business cycle could be controlled". Dennison emphasised this issue in a letter to Gay on October 17, 1921:

Dear Ed:
The Business Cycle didn't get much of a show with the Conference itself, but it did with Hoover, and he is apparently definitely determined to have the smaller committee—which is to be appointed to work through the winter—devote most of its attention to it (Dennison to Gay; Gay Papers, Huntington Library).\(^8\)

Convinced of the need to embrace a preventative as well as a palliative approach to unemployment, the conference recommended a program of immediate relief, the widespread emulation of the stabilisation practices adopted by scientifically managed firms, and the establishment of a permanent standing committee charged with undertaking an "exhaustive investigation .... of the whole problem of unemployment and of methods of stabilising business and industry so as to prevent the vast waves of suffering which result from the valleys in the so-called business cycle" (Hoover, Business Cycle Report 1923, v). On this note, Hoover resolved, after some persuasion on the part of Wesley Mitchell, that a further conference be devoted to the study of business cycles and employment. The outcome of this politicking, as previously mentioned was the Business Cycle Report of 1923. Similarly, with regard to seasonal unemployment, industry by industry studies would be conducted and presented.

As with his other public service experience, Dennison had little scope for recording his impressions of the Unemployment Conference proceedings until after it had convened. In other words, neither in the official conference report nor in his personal

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\(^8\) As explored below, this came in the guise of the Business Cycle Committee which published their findings as *Business Cycles and Unemployment* in 1923.
papers is there much written material to be found conveying Dennison's opinions or impressions on the issues examined at the conference. Yet having said this, Dennison was an active participant in the public hearings concerning public works as a solution to unemployment held on September 29. A seasoned campaigner in stabilisation measures at his own company, Dennison translated these same management techniques into relevant measures for use with the public purse. In particular, he emphasised "the necessity of planning public works during periods of active industry and deferring a percentage of these for execution during periods of unemployment and depression" (Dennison, Unemployment Report 1921, 106). This meant that governments must prepare in advance and "withhold" its projects in preparation for downturns, "having the engineering and usually the financing work done and deferring certain portions" (Ibid.). He stated further, that

(w)ithholding during boom times of governmental works—city, State, National—lessens the competition with private industry, which boosts prices to artificial levels, so keen in our memories. Therefore public work should and can be made to mesh in with private work (Ibid., 106-107).

Dennison was of the realisation that too much public works spending may dampen private initiative – later termed crowding out. Conversely, governments could flatten the troughs in the cycle by allowing their own projects to 'kick in'. It is here that Dennison first espoused the public use of a Five Year Plan. As he saw it, "(t)he business cycle moves in a 7 to 10 year period from crest to crest, and it is after the collapse—that is to say, now—that preparation must be made for the cycle ahead. ...A five-year plan means looking that far ahead; making a general survey, estimating, and perfecting the estimate every period of a year or less" (Ibid.). As will become manifest in the next chapter, Dennison's interest and active participation in the evolving interrelationship between institutionalist economics and public policy would become more pronounced particularly with the onset of the 1930s Depression.

The 1920-21 downturn caused Dennison to devote more of his time to the study of the periodicity of cycles in order to avoid crises in the future. As Reagan (1982, 165) has noted:
After his participation in the 1921 conference, Dennison took up the study of business cycles in earnest. The combined impact of the Dennison Manufacturing Company experiments, statistical work for the wartime governmental agencies, and renewed interest in business stabilization at the 1921 conference led Dennison into the heart of economic research.

To this end, Dennison stressed the importance of fact-finding investigations into economic conditions. He allied with new Harvard Business School Dean and Taylor Society member, Wallace B. Donham, in a bid to disseminate business cycle theory to business people, especially stressing the need for private as opposed to government initiatives to tame the cycle (Ibid., 166). An important later development in this context was Dennison's membership of the abortive Business Research Council (BRC) initiative of the late 1920s. Given his status as a pioneer in the area of business research for forecasting the swings of the business cycle, in 1928, Professor C.O. Ruggles of Harvard Business School, and Dennison's friend and managing director of the American Management Association, W.J. Donald, approached him with the idea of assembling a business group for gathering information on economic research to be derived from corporate leaders, business schools, and private agencies. The proposed BRC would act as a clearing-house of business information from philanthropic research projects, professional business schools, and public agencies (Reagan 1982, 172-173).\(^9\)

**The Emergence of Dennison's Micro-Theory of Business Cycles**

Following the 1921 Conference, Dennison furthered his correspondence with Edwin Gay, now President of the recently opened National Bureau of Economic Research (NBER) and commenced contact with Wesley Mitchell who was at this time Research Director of the NBER. These contacts resulted in Dennison becoming an active participant in the activities of the NBER where he worked closely with both Gay and Mitchell, 'swapping' ideas regarding various aspects of the cycle. On the basis of this correspondence, combined

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\(^9\) His involvement with the short lived body, however, put him in good stead to be enlisted into the successor 'public' body, the Business Advisory and Planning Council to be discussed in the next chapter.
with the experience of his own company practice, Dennison forged his own business cycle micro-theory.

In essence, Dennison argued that all departments in a company had to follow swings in the cycle and that businesses must learn to strategically slow down investment, purchasing, and production prior to peaks in the cycle. Whilst during slow times, they had to learn to increase advertising, selling, credit, and plan new lines of goods.

In the 1930s this idea would become the basis for a conservative kind of deficit spending policy which saw equilibrium over the length of the major cycles. Though not recognized at the time, this sort of business thinking laid the seeds for a program of business-government cooperation through statistical research and dissemination of information by the Department of Commerce, improved labor-management relations through the acceptance of various measures of unemployment insurance, and creation of federal realms such as public works planning to fill in gaps left by the private sector – Keynesian economists would later term these 'bottlenecks' (Reagan 1982, 166-167).

Dennison publicised his views on cycles in various quarters, from press interviews to meetings of the AEA and the American Statistical Association, the president of which at the time was Wesley Mitchell. In an interview published in the New York Evening Post on October 28 1921, Dennison explained how in his company, identifying and charting the business cycle allowed the company to "weather the ups and downs of the prosperity cycle". He explained how in the cycle "it is not the wave itself but the breaking crest of the wave that does the damage" and therefore, we should "discover and apply measures which we may reasonably expect to modify it (the crest)" (Dennison, 1921). He continued:

The crest of the wave is due to the widespread belief in the continuance of the rate of expansion of the country and its business, which is too great to be maintained and assimilated. Over-estimates in this regard, over-estimates in the individual enterprise of requirements and of future prices, lead to over-extension of plant, over-purchases of raw materials and merchandise; increasing size and inefficiency in labor force and in methods of management, and overstraining of credit resources (Ibid.; italics in original).

In other words, as he stated in an undated and unsourced interview, "(m)en in the aggregate are governed not by knowledge and reason but by hunches and emotions."
Hence people follow the crowd from one extreme to the other without ever knowing enough to step in the middle" (Dennison, Business Cycles Folder, Dennison Papers).

In terms of what the individual business manager can do to flatten the aforementioned crests, Dennison prescribed the proven practice of DMC: "Our practice", he said, "follows a policy affecting our conduct of production and plant-development, our use of our own credit and its extension to our customers, our purchase of raw materials and merchandise, our advertising" (Dennison 1921). In terms of public action, Dennison called for "a very much larger and more detailed body of information, gathered widely and authoritatively...regarding the things that both govern and exhibit the currents at work to bring about and accelerate or retard the fluctuations of the business cycle". Information like statistics of inventories and goods on order; statistics of production with the ratio to capacity; statistics on construction begun and underway; weekly earnings and hours; employment statistics; and cost statistics (Ibid.).

Dennison's correspondence with Mitchell is an enlightening source of the former's ideas vis a vis the business cycle. In a letter dated December 22, 1921, Dennison wrote Mitchell:

My Dear Mitchell

If you will be nice enough to me not to take the trouble to answer my nonsense, I want once in a while as a foolish idea on cycles gets into my head to get it out by dictating and sending it to you. ...Isn't it likely that the country as a whole behaves very much like the average individual? When times have been normal and income normal for a while we begin to reach for the unnecessaries of life and that reaching very readily becomes over-reaching. The overproduction of the unnecessaries, of course, crowds the market and lifts the costs of the necessaries. Then we get fed up and, as consumers, become a little bit—only a little bit—cautious, but our producing friends have got in so deep on the expectation that we would go on forever with the luxuries that even a little restriction upsets their apple cart (Dennison to Mitchell, Business Cycles Folder, Dennison Papers).

Later the same month Mitchell, impressed by Dennison's knowledge of the cycle, invited him to speak before a joint meeting of the American Statistical Association and the
Dennison began the address by explaining the evolution of the modern capitalist business cycle highlighting that in the past, almost all manufactured goods were made-to-order and delivered to the ultimate consumer directly by the same agent, so that supply and demand were "were in close touch with each other" and there was little reason for maladjustment. In other words, he was of the belief that Say's Law reigned and there was little, if no need for a supplier to plan production. But "(t)he rise of modern industry with its indirect methods of distribution has removed the original producer very far from the ultimate consumer". Consequently, the producer under modern capitalism, has "to gauge the requirements of the consumer considerably in advance of the actual call for the goods. Supply, therefore, is regulated not by actual demand but by what the producer thinks that demand will be". If suppliers' predictions or expectations were correct, Dennison continued, "there might be no such thing as our present business cycle". So it is the lag between the expectations of buyer and seller that results in the cycle. And further, he stated, the biggest present problem for the producer is that they are "misled by appearances and produces most actively just when the consumer's demand is about to fall off" (Dennison 1922, 20).

The pressing need of modern industry and commerce therefore, according to Dennison, was for business planning or "intelligent direction which looks well beyond the feeling of the moment". He asserted that business leaders must be helped to "form the habit of planning and budgeting" and as this becomes habitual, "unbridled guessing will be displaced by more careful estimates - by guesses guided by the available facts" (Ibid., 22). He then detailed actual stabilisation practices in his own company designed to redress the hazardous effects of the business cycle asserting that

we accepted the Taylor doctrine that business management is a profession. It is subject to analysis and needs laborious study and experimenting of all sorts, just the same as any other profession based upon any other science (Dennison 1923, 377).

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10 His paper, 'Management and the Business Cycle', was mentioned earlier in the chapter.
11 It is interesting here to note Dennison's insights into the habits of business leaders, and how these habits have undergone change as a result of the changing institutional structure of the economy.
In another letter to Mitchell on January 4, 1922, Dennison wrote:

My Dear Mitchell

As I see it I shall continue to tell you all about the causes of the cycles until you refrain from answering back. This time I have to remark that I don't believe the somewhat informal statement in my part of the [Economic] Advisory Committee's [of the Unemployment Conference] report has been given sufficient working out. I said that while the consuming public could undoubtedly take care of an enormous amount of production, there was a rate of increase in consumption beyond which they couldn't go. There is something like a normal rate of assimilation which of course varies with different goods but which can't be safely exceeded. It is probably not unrelated to the fact which Frederick W. Taylor discovered that any increase in wage beyond 30% ceased to have a corresponding effect as a spur to increased production (Dennison to Mitchell, Business Cycles Folder, Dennison Papers; parentheses added).

Implicit here in Dennison's groping for understanding, is the notion of consumers' propensity to consume and an upper limit on how much they will spend in accordance with changes in income. In other words, as Taylor had discovered on the supply side, wage increases past some point, perhaps a satiation or 'bliss' point, failed to induce increased consumption.

After using the recognised business cycle theorist of the time as a 'sounding board' for his intuitive theory, Dennison thereafter focused intently on publicising his business cycle theory. In February 1922, he published two papers; the first, in *The Nation's Business* was entitled 'How I Use the Business Cycle', and reiterated his views espoused at the earlier ASA/AEA meeting. Of the 1920-21 depression, Dennison regarded the over-expectations of producers as the ultimate cause. Given "the maker regulates supply not by the actual demand but by what he thinks the demand will be", it was Dennison's opinion that producers simply got it wrong. "It is an axiom", he continued, "that both consumer and dealer buy relatively more when they think prices are going up than when they think prices are going down, but the consumer buying sometimes stops sooner than dealer buying, and this I believe was an important factor in the recent depression" (Dennison 1922e, 9). In other words, producers expected, given the postwar pent-up demand, that consumers would keep assimilating output as they kept producing it *a la* Say's Law. But given Dennison's intuitive belief, as revealed to Mitchell in the aforementioned letter, there
was a threshold in consumption beyond which consumers would not traverse. The moral of the story for Dennison then, was the need for more "intelligent direction" in business.

The business man must get the habit of planning and budgeting, of fixing careful attention on the future. As the use of planning becomes habitual, unbridled guessing will be displaced by more careful estimates – by guessing guided by all available facts. The manufacturer has no more important problem than that of forecasting the demand for his products. ...He must have full and timely statistics well and clearly presented (Ibid., 9).

The second paper published in 1922, 'Credit Granting and the Business Cycle' appeared in The Credit Monthly. Here Dennison summarised successful practice at DMC as regards the granting of credit to buyers of Dennison products. He asserted that the credit department in a business is in a pivotal position to exert control over cyclical fluctuations "by policies of credit granting based on the outstanding fact of business movement – namely the movement from prosperity, to depression and back to prosperity" (Dennison 1922f, 2). And further:

The undue extension of credit at the peak of prosperity and the undue restriction of credit in the depth of depression run counter to sound business because such crediting takes no account of the cyclical movement of business. Restricting credit during depression, for instance,

we believe is a mistake if it results in the curtailment of sales when sales are needed most (Dennison 1922f, 3).

Inherent in this analysis is a micro-based version of Keynesian monetary or open-market operations measures.

Dennison wrote one more paper on the business cycle in 1922, 'The Cycle Harnessed', that was never published. Once more using Veblenesque rhetoric, Dennison directly challenged the Darwinian acquiescence of the orthodoxy in the face the business cycle. His poignant polemic is worth quoting at length:

Since some bold men have dared to suggest that the biological struggle for survival is not as blind as Darwin's apostles have hoped, it can no longer be impious to suppose that the course of economic evolution is not to be judged glorious in direct proportion to its blindness.
Business depressions recurring like periodic storms can no longer be regarded submissively as visitations of divine wrath or ecstatically as beautifully designed to eliminate the unfit. The unfit can be eliminated to better purpose, less capriciously and with much less suffering by the cultivation of more exacting standards of professional skill in business management (Dennison 1922g, 1).

As suggested above, the impact of Dennison’s theory of business cycles as well as his practical measures for their amelioration filtered into the wider economics community’s conceptualisation of business cycles. This is evident from an examination of the business cycle literature of the period and also in an overview of the shifting focus of Wesley Mitchell. However, before examining these developments, mention must be made of the direction that Dennison’s cycle theory took in the climate of the “New Competition” of the 1920s in emphasising the role that managers could play in managing demand for their output, and so, in regularising employment and purchasing power. This is an important point both because it laid the foundation for his proto-Keynesian views and would play a decisive part in the later work of John Kenneth Galbraith, both of which will be explored in the next chapter.

The "New Competition" and Dennison’s Scientific Management of Demand

Emerging from the shock of the 1920-21 crisis and up to the stock market collapse in October 1929, the US experienced a period of almost uninterrupted prosperity popularly conceived as the "Roaring Twenties". It was widely perceived that the wrath of the business cycle, despite its relative infancy as an object of inquiry, had been tamed and that 'the only way was up' in this "Prosperity Decade" as Soule (1947) described it. Commenting on the growth of the magnitude of the firm and the “New Competition”, Dorfman (1959, 48) highlighted the altered industrial terrain of the 1920s:

For the old competition of producers and dealers in the same commodity the process was now much more complex, with manufacturers, wholesalers, and retailers not only engaging in intra-industry competition but also competing for the consumer's dollar with other commodities and with industries in other territories and abroad.
Yet Dorfman did not fully appreciate, or at least fully explore, the importance of what was occurring on the demand side of the equation in this period. This is where the contribution of economic analysts like Dennison came to the fore. For it appears that Dennison, unlike those of the mainstream persuasion doggedly claspig to Say's Law, began to recognise the enormity of the changes in the workings of the economic system. While supply side matters had been attended to by Taylorist engineer-management consultants from the last two decades of the nineteenth century, partly contributing to the 'second industrial revolution' which dramatically cut costs and boosted output, little consideration had been given to the need for adequate demand for this output.

What Dennison believed was that just as the scientific method had been applied to the supply side, it must also be applied to the demand side to ensure that what had been produced was sold. To economists of the mainstream persuasion, this was not a subject worthy of consideration because they believed supply generated its own demand. This was a point made by Metcalf (1972, 239) who noted that although the 1920s is portrayed as a decade of "unreflecting prosperity", the "problem of economic stability...ranked high among the concerns of business and government leaders", due largely to the propaganda efforts of the exponents of regularisation in their bid to overcome the "indifference of management". As such,

(t)he proposition that businesses should contribute to the stability of the economy as a whole by reducing fluctuations in their own production, employment, and investment commanded wide support (Ibid., 239).

Proponents of stabilisation like Dennison, based their attempts to diffuse stabilising techniques on a progressive philosophy of social responsibility aimed at reducing unemployment and fostering better industrial relations, and also on a self-interested striving for greater profitability. This was part of what was described by Kroos (1970, 42) and McQuaid (1975) as the "New Capitalism", the essence of which was the unity of the profit motive and social responsibility. Hopes for spreading the stabilisation message depended ultimately on its promise of profitability to individual firms. Therefore all of the stabilisation studies conducted in the 1920s attempted to demonstrate the issue of
profitability so as to exhort business leaders to adopt the stabilisation measures in their enterprises (Metcalf 1972, 239-243).

In this context, Dennison was a pioneer in marketing (or distribution as it was then called) and selling his company's products. A year after his death in 1953, he was admitted into the Hall of Fame in Distribution “for distinguished contributions to the advancement of Distribution in the last quarter century” joining such famous (household) names as Elizabeth Arden, Clarence Birdseye, H.S. Firestone, J.C. Penney, Helena Rubenstein, Thomas Watson (IBM), as well as his friends Edward and Lincoln Filene and Arch Shaw (Dennison Papers, Miscellaneous Folder). As mentioned earlier in the dissertation, Dennison separated selling and merchandising, establishing separate departments and subjected both facets of distribution to the rigour of the scientific method. With the rise of the "new competition" and a "buyers' market" in the mid to late 1920s, Dennison's earlier ideas became more relevant than ever. He had highlighted as early as 1920 that "the problem of marketing and especially the creation of demand for the product and development of new products had become the pre-eminent concern of business executives" (Dennison cited by Pabon 1992, 129).

In 1926, Dennison displayed a deep concern with distribution that was probably engendered by the 1925 Distribution Conference, a brainchild of the US Chamber of Commerce, of which he was a leading member. In an unpublished address before the convention of the National Boot and Shoe Manufacturers' Association, entitled 'The Very Great and Growing Importance of the Distribution Ends of Our Business', he drew on his war experience with the Commercial Economy Board and on the example of Hoover's waste reduction program by addressing the need for cost reductions in distribution as a means of gaining competitive advantage. Citing empirical studies, he stated that goods sold over the counter cost the customer just about double their factory cost. However, he continued, given that half the costs of goods are factory or manufacturing costs and the other half are distribution or marketing costs, it would seem that savings could be realised in both. This was not the case according to Dennison, "for the one field (manufacturing) has been raked over and worked over these past 150 years, the other (distribution) only
the industrial revolution has long passed its peak. ...We are approaching in manufacturing savings a point of diminishing returns" (Dennison 1926c, 3; parentheses added). Accordingly, in the era of a 'buyers' market'

(t)he logic of events will force the business world during the next fifty years to look more closely at its distribution costs as offering them the greatest opportunity for that inventiveness which means competitive success. ...(J)ust as mechanical engineers and chemists, and electrical engineers, little by little, dipped into the elements of the manufacturing processes, so must distribution engineers find equally fascinating and profitable progress in the years just ahead of us (Ibid., 4).

Such that

the more important field of battle in the business future is to be the distribution field... (C)ompetition will enter the distribution field, and do very much what it has done in the manufacturing field (Ibid., 7).

This is an important statement as it clearly demonstrated that Dennison began to recognise the need to take care of the demand side of the equation—in the sense that marketing was concerned with ensuring adequate demand—just as they had so long taken care of the supply side. In other words, analysts like Dennison wanted to ensure that sufficient demand could be generated, at least in microeconomic terms, for the massive increase in output engendered by the application of Taylorist philosophies.

In April 1926, Dennison continued his focus on distribution with a paper read before the Taylor Society entitled 'Balancing Manufacturing and Distribution'. In the paper he conveyed the history of his company's attempts since 1906, to coordinate the factory and the sales departments and the crucial function of the merchandising department in this endeavour. For balancing manufacturing and distribution (or supply and demand), he continued, entailed "(l)ooking into the future and correctly gauging what is to come" in terms of expected demand for the products produced. This job should not be left up to sales or manufacturing staff but to a distinct functionary being the merchandise manager (Dennison 1926a). This idea was further developed in an unpublished paper he read before the International Scientific Management Committee in Zurich in February 1927. Here, Dennison stressed at the outset that management be recognised "not only [as] the
special function which should coordinate the interests and the services of investors, of laborers, and of customers", but also as "making the demands and offering the opportunities of the highest engineering tasks, – as containing, in short, all the possibilities of development into a great and noble profession" (1927e, 1; italics added). He then discussed all the improvements in "scientific business management" stating that "none is so wide and none offers so free a field for ingenious discovery for ingenious invention as merchandising". He continued:

The critical choosing of the goods we are to make and sell, using in the judgements good sense and 'intuition', but also using all available and obtainable analyses of markets and potential markets, and of the best use of factory facilities, is too often left out of a company's program. ...[Merchandising] is the inventive integration of the real market needs with the real productive capacity of the company (Ibid., 6; italics added).

In December 1927, again before the Taylor Society, Dennison presented a rehash of his old ideas concerning marketing and the division of merchandising and selling that are as relevant today as they were then. The paper was called 'Scientific Management in Manufacturers' Marketing'. He began by stressing that the merchandising function is a distinct and separate function from selling, marketing, or advertising although, at the time of writing (and perhaps today), it was not perceived as such. However, he continued, the trend of generalisation to specialisation in the history of professions, like engineering for instance, spilled over into sales management. And

(o)ut of the functions that have evolved from the general field of management, there is to be recognized one as standing as a co-ordinating force between the job of selling goods and the job of manufacturing goods to be sold...to provide that the goods manufactured are of proper quality and in proper varieties, in sufficient quantities and sold at prices best suited to the market (Dennison 1927, 526)

Dennison called this function "merchandising" and over the period of time that it existed as a specific function in the DMC, was found to comprise 4 elements:

1. The study of merchandise relative to (a) creating new merchandise; (b) finding new uses for standard merchandise; (c) avoiding the retaining of potentially obsolete items
2. The study of merchandise relative to estimating the amount of production necessary to meet market requirements at different seasons and periods
3. The study of merchandise relative to making price estimates on special merchandise and to making price changes in stock merchandise.

4. To make each line of merchandise of continuing interest to the selling organization.

He believed that this function was crucial. As a student of business history, Dennison was of the opinion that those "companies which studied their merchandise and synchronized it with the market changes have profited and given steady employment to their workers" (Dennison and Keir 1929c, 164). It was this synchrony, he observed, that was responsible for the early success of the Ford company. In 1908, the automobile market was saturated with heavy, high-priced cars of individual designs. Ford capitalised on this by mass producing the standardised light and cheap Model T. By 1925, light and cheap cars had saturated the market so that, again, Ford responded with newer models with variations in colour, design, and mechanical equipment (*Ibid.*).

**Unreconstructed Schumpeterian? Dennison's final theoretical work on business cycles**

As a result of his participation in the *Recent Economic Changes* report (1929), discussed in Chapter Two, Dennison began to devote significant attention to the impact of mechanisation and improved methods of production on employment, and to the notion of technological unemployment. These considerations played an important role in shaping his evolving conception of the capitalist business cycle, his explanation for the 1930s Depression, and his prescriptions for recovery therefrom. In September 1928, in a letter to Edwin Gay, Dennison addressed these issues. As with his correspondence with Mitchell, Dennison used Gay as a 'sounding board' for his ideas in their embryonic form, encouraging criticism and refutation by these two intellectual 'heavyweights'. In the aforementioned letter, dated September 4, Dennison conveyed how he had recently sent off the draft of 'Management' for *Recent Economic Changes* and how, in the course of writing this paper, he had gained "an insight entirely new to me on the problem of technological unemployment". As he now saw it, whether or not there was "large and practically permanent unemployment" centred on "the relative effective rate at which..."
inventions of new consumers' satisfactions go on in proportion to inventions of producers' equipment and methods". He stated further that these respective rates were held in check by "normal economic influences..., but, like any other economic influences, they work with so heavy a lag that they might almost as well be not working". The upshot of this, according to Dennison, was that a situation of general over-production may arise "if merely larger quantities of the goods already being used by the community were produced" and that this danger might be reduced by "the invention of new goods and new satisfactions". Overall for Dennison, when considering levels of production or consumption, "the crucial factor may be the rate of invention of new consumer goods compared with the rate of invention in machines and processes of manufacture" (Dennison to Gay, Gay Papers – Huntington Library).

Dennison developed these ideas further in June 1929, when he contributed an editorial to the *Boston Herald*, entitled 'Production-Invention'. In his analysis of product-invention and process-invention, the relationship between the two, and the ensuing impact on economic activity, Dennison's approach might best be described as Schumpeterian. As he noted:

I am inclined to think now in the ratios of the extent to which these two kinds of invention are effectively going on, from time to time there is to be found an important influence upon economic activity. For whereas an excess of process-invention seems to induce that state of collapse we loosely call 'over-production', product-invention is a spur to consumption (Dennison 1929b, 1-2).

He explained that in its initial stages, process-invention – technological innovation - allows price reductions and a consequent increase in consumption due to increased purchasing power. In turn, producers expand capacity to meet the new demand. However, a satiation point is soon reached for most goods (this being the point he 'bounced off' Wesley Mitchell in their previously noted correspondence in the early 1920s) such that further price reductions do not spur any more consumption with overproduction the result. "At this stage", he asserted further, "reductions in manufacturing cost become less valuable.

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12 This article formed the basis of a paper he subsequently read before the AEA in December.
than more positive sales tonics. Management must press for the development of new products and new styles; product-invention becomes more important." (Ibid., 2). In sum:

Process-invention leads to increase in investments in manufacturing equipment, to overproduction and price reductions; product-invention is thereby induced and leads to fresh buying, renewed manufacturing activity and finally such pressure upon facilities as to invite again concentration upon process-invention. ...Here, then, is an alternation of influences which may well have a real relationship to those alternations of activity we call the business cycle..." (Ibid., 3; emphasis added).

Edwin Gay, at this time President of the AEA and having 'proofed' Dennison's ideas in their genesis, arranged for the latter to read the resulting paper before the congregation of economists at their annual general meeting on December 30, 1929. The paper, 'Some Economic and Social Accompaniments of the Mechanization of Industry', was concerned with the effect of mechanisation on workers, consumers, "and the organized structure of business itself". Dennison began with a scathing attack on the economics profession for its apparent ignorance of such matters:

In preparing my answers to these questions I found in myself a growing protest that you as economists had so rarely attempted such prophecies. I can find enough passionate affirmations from men of other cloths, but from the economists far too few of such careful and tentative prognoses as those of Sombart, which are the life of science and the test of its theorems. The necessity of prediction is an incitement to research and a safeguard against the spinning of theory (Dennison 1930, 133).

This statement is important for two related reasons. First, his citation of Werner Sombart, revealed that Dennison had some knowledge of the German Historical School which is broadly acknowledged as the intellectual antecedent of American institutionalism. Second, it reveals that Dennison, like his correspondent Mitchell, believed economics should focus more on history, field investigation, and prediction rather than on "the spinning of theory" — a point that situated him, once again, in the institutionalist rubric.13

Included under the banner of mechanisation of industry, for Dennison, was scientific management of production and clerical work, and also the innovations in the

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13 Even his choice of the phrase "spinning theory" resembled Mitchell's belief in the futility of "spinning speculations". So too did his belief, like Mitchell, in observation, experimentation and prediction. For more on these matters see Ginzberg (1931[1997]).
selling process like chain store methods. He believed that the consequences of mechanisation depended on its rate and its direction; both of which are determined "by a conglomerate of impulses, only part of which can be called economic". In other words, socio-political forces would also influence the direction of mechanisation. Here he saw two possible directions:

(0)ne road is the road of an increasing conscious control of population gains; the other is the road of natural geometric increase. The one gives the mechanization of economic production and distribution a chance to work out to the total if not the general material advantage of mankind; the other is most likely to find all gains absorbed by increased numbers of men who are on the average little if any better off than their fathers (Ibid., 134).

This tension between planned advance and unplanned advance is reflected in the alternative "fork" he thought possible for the direction of mechanisation to take:

The right branch here is marked by a firm public belief in the necessity of wide distribution of the community's wealth, by the rooted tradition of the high wage doctrine; the other by laissez faire and its corollaries exalting poverty as a necessary driving force. There is no need of gifts of prophecy to see the vista down the latter branch; some knowledge of history is enough. More than once have the rich become richer and the poor, poorer, but never to a happy ending. The new possibilities, of which history can give us only scanty hints, lie on the other branch along which it is the crowd which has the spare money to spend and some spare time to spend it (Ibid., 135; italics added).

Herein lays the germ of Dennison's proto-Keynesian macroeconomics: a more equitable distribution of income – a distribution favouring the majority of lower income earners who have a higher propensity to spend, and so, keep the economy's cogs turning.

Exactly what direction was to be taken, according to Dennison, depended in the final instance on the leaders of social opinion—here he implored the AEA as "teachers, preachers and practical advisors" to take the right path—and the exercise of social control. "For however smoothly the theories of automatic regulation may tune in with our tastes", he asserted, "in logic, it seems to me, the facts of the first hundred years of mechanization in England make it impossible for us to accept any of them as working hypotheses. Happy adjustments to further mechanization cannot in practical common sense be expected
without definite and organized social intent, that is to say, without some form of social control" (Ibid., 152). And further:

Progress in the physical sciences has brought us to the point where a complaisant (sic) belief in some benevolent 'invisible hand' is insupportable...Are we not, then, bound to count as enemies of the higher possibilities of civilization all the merely cheerful optimists and all the whining pessimists, all mere laissez-faire and all God-saking, and join with those who admit the chances of defeat but adopt the theory of progress as the hypothesis they will work under (Ibid., 155).


It was Dennison's hope and Mitchell's persistence that resulted in an investigation of business cycles and their effect on employment as an outcrop of the 1921 Conference. Gay and Mitchell of the NBER were recruited by the business cycle committee assembled by Secretary Hoover to oversee the technical aspects of the study. Commenting on this development Runfola (1973, 225) has observed that it was inevitable that Hoover and Mitchell would be drawn together by the stabilisation issue as both "had participated in the exhilarating cooperative ventures of World War I and were thoroughly imbued with the principles of the Taylor school of scientific management." The existence of an affinity between Mitchell and Taylorists like Dennison, particularly as regards their common belief in the value of intervention based on 'scientific method' and detailed research, is certainly easy to discern. As one of the leading proponents of institutional economics, Mitchell was dissatisfied with mainstream economics which he judged more art than science. He sought to introduce 'scientific method' and the laboratory into economics, using the literary and statistical methods of the past (Ginzberg 1931 [1997], 374-378).

Having said this, as late as 1921 Mitchell had not yet taken on board the emphasis on firm-level management activity that was so characteristic of Dennison's theory of the business cycle. In his 1913 volume Business Cycles and their Causes, Mitchell had discussed the cycle in terms of a "process of cumulative change" in which "depression breeds revival, revival breeds prosperity". In so doing he had discussed what could be done to "master" cycles emphasising in particular enforcement of corporate law, the
reorganisation of the banking system, public works spending, and currency stabilisation (Mitchell 1913). He made no mention of management activity at the level of the enterprise. In short, his focus was macroeconomic and concentrated solely on market-coordinated actions. At this juncture, he was not cognisant of issues relating to the internal operations of the firm and actions that business managers might take to smooth the cycle at the level of the microeconomy.

Yet Mitchell’s failure to pay heed to how enhancing industrial productivity and improving the management of business enterprises could assist stabilisation would undergo significant change following the 1920-21 recession, the ensuing Unemployment Conference, and his correspondence with Dennison. It must be remembered that it was Mitchell’s pioneering work at the turn of the century that had brought into question the status quo view that cycles were normal and to be left alone. Mitchell had argued that phases of the cycle not only spurred successor phases, but that the effects of the phase were cumulative. For Mitchell, the key to avoiding the "sufferings of depression" was to prevent the "excesses of booms". He made this clear in a 1922 AEA address when he said that "we have tried to counteract the effects from which we suffer rather than to control the causes from which they flow" and that "(o)ur chief failing has been that we have not devoted sufficient constructive intelligence to finding out whether prevention is possible". He noted further that the recent Unemployment Conference was a step in the right direction with "many men in public and private situations" taking the "constructive attitude, considering the future as well the present, thinking about prevention rather than cure" (Mitchell 1922, 22). After considering the merit of monetary solutions to smoothing the cycle, Mitchell went on to discuss "long-range planning of public works, with intent to get a larger part of such undertakings in periods of depression". Mitchell also argued "that in addition to construction work public purchases of standard supplies might advantageously be planned on this basis", whilst further, he says that "(t)he extension of such long-range planning from public to private enterprises is an obvious suggestion" (Ibid., 26-27). Despite this suggestion, Mitchell urged the same types of prescriptions he had advocated in 1913 and as a result, one of the respondents to his paper, N.I. Stone, a
practising manager, Taylorist and a director of the NBER, criticised Mitchell’s failure to address a micro-theory of business cycles and urged him to widen his perspective to include the internal functioning of this fundamental institution (Stone 1922, 33-36).

That Stone’s intervention at the AEA conference may have had some effect on Mitchell is indicated by the fact that in December 1921 Mitchell published an article in *System* titled ‘How you can use “The Business Cycle”’. Though his perspective in this paper appeared to be still dominated by a macro conception of the business cycle, by directing his message squarely at the business manager Mitchell revealed that he was at least cognisant, if not entirely convinced, that the businessman had a potentially strategic role. He merely advised that managers should undertake detailed study of business fluctuations and adjust their purchases and output accordingly with the potentials of greater profitability. In other words, there was no mention of how managers could counter the more damaging aspects of the cycle, only how they might study it for their own profitability.

Mitchell’s continued lack of appreciation of the value of micro-management of the cycle is also indicated by the program of research he suggested the NBER should undertake for the business cycle committee. He submitted his proposal to Hoover’s assistant, E.E. Hunt in March 1922 and in so doing, gave minuscule weighting to the contribution of enterprise management in smoothing business cycles. Hunt responded by telling Mitchell that while his proposal was of great value it was too much an academic exercise and lacked “the sort of pointing up which is a necessary spur to action.” Moreover, it did not allow for that which Hunt considered to be of primary significance; that is, a “definite statement in simple terms of what the American businessman can do and what Governmental departments can do” (Hunt in Alchon 1982, 135)

Dennison, while not a direct member of the business cycle committee, also sought to ensure that Mitchell’s research program examined both macroeconomic issues and the contribution of enterprise managers. For example, and as examined above, he published a number of papers on stabilisation through 1922 that stressed the significance of management stabilisation activity. These combined influences finally elicited the desired
response. Indeed, as the time approached to release the business cycle report Mitchell appears to have become almost evangelistic in his enthusiasm for what might be achieved if the economics discipline should find common cause with the business professions. In December 1922 he presented a paper titled ‘Making Goods and Making Money’ to a joint session of the American Economic Association and The American Society of Mechanical Engineers. This paper and his evident appreciation of the potentially pivotal role of the businessman in the smoothing of the cycle, was the likely combination of the aforementioned influences hand-in-hand with his liaisons with members of the engineering profession. He met Taylorist engineers, Morris Cooke and Henry Gantt via his former teacher Veblen at the New School for Social Research in 1919 (Dorfman 1947).

The Taylorist engineers impressed upon Mitchell, the potential efficacy of micro-level action to smooth the cycle, especially if managers were guided by the principals of Taylorist planning as understood by the scientific management engineers. Mitchell’s address to the engineers began by noting that though engineering and economics had always been concerned with the production of wealth, the two disciplines had unfortunately taken very different tacks. However, over time things had begun to change, for the engineer had come to see his problem as one that takes in all aspects of the production process including the management of resources.

He is interested not merely in his mechanical equipment, but also in the choice and training of the personnel, in the planning and routing of work, in the purchasing and storing of materials, in the distributing agencies handling the product, in the methods for winning markets, even in questions of financing. Thus the engineer has begun to attack many of the problems that concern the economist. (Mitchell 1922 [1950], 138).

Though less progress had thus far been achieved amongst economists, Mitchell asserted that this development within engineering was being mirrored within economics in that economists were beginning to embrace “a descriptive analysis of economic behavior, as opposed to a subjective explanation of choices.” As a result the discipline was both placing greater emphasis on production and was becoming more quantitative and hence more objective. This enhanced objectivity was possible because while we “cannot
measure sacrifices and satisfactions...we can count goods and reckon in money.” Mitchell advised that these concomitant developments should enable engineers and economists to collaborate more effectively in the future. Areas of research he identified as particularly worthy of joint exploration were currency stabilisation, overhead costs, industry wide planning, and most importantly, business stabilisation: "the problem of controlling business cycles”.

In this context Mitchell explicitly acknowledged that businessmen if aided by engineers whom, like his teacher Veblen, he regarded as "central figure in production”, had at their disposal “various methods of exercising control over the cycle”. Such methods were those tried and tested by Dennison and other members of the business stabilisation movement:

- systematic scheduling of business operations with reference to anticipated changes in demand
- long-range planning of construction
- launching new products and increasing advertising during dull times
- more circumspect granting of credit during good times
- unemployment insurance to reduce labour turnover and sustain purchasing power of workers

Furthermore, Mitchell regarded these methods as entirely consistent with his original and pioneering conception of what caused cycles in that they emphasised prevention rather than cure; "that is, they seek to diminish the wasteful excesses of booms as the best means of diminishing the severity of crises and depressions" (Ibid., 146).

Having reached out to the engineers, Mitchell turned to the accounting profession whom he viewed as a second major profession capable of making a significant contribution to business stabilisation. In January 1923 he presented a paper titled ‘Accountants and Economics with Reference to the Business Cycle’ to the New York State Society of Public Accountants. Again, Mitchell specifically acknowledged the strategic role of the businessman in the efficient conduct of productive activity:
As the great nations of the world are organized now, the business man is the man in authority, and the engineer is his servant. ...(T)his system has serious shortcomings and...to effect improvements we must work through the controlling factor, the business man (Mitchell 1923, 163).

The thrust of his message thereafter was that while it is true that accountants provide a valuable service to industry and society, by recording the history of firms, their contribution would be much greater if they became advisers to the business executive counselling the latter on the future strategy that should be embraced by the firm. It is the executive, he advised, who must make strategic decisions but the latter must rely on information and advice provided by the professions, and accountants are particularly well placed to fulfil this role because of their intimate knowledge of business details:

You stand a better chance of contributing as much to the orderly conduct of business, to the reduction of waste and the increase of efficiency, as any other profession can contribute (Ibid., 164).

Business stabilisation, Mitchell continued, was one of the areas where accountants could greatly assist the executive to plan for the future. He noted that in recent years the fatalism with which the business cycle was perceived had come to be challenged and many executives were now following the lead being provided by Secretary Hoover. As he remarked, "(I)t is no less a problem of private business than a problem of public economy to achieve mastery over the business cycle" (Ibid., 166). However, one problem with this development was that senior managers did not necessarily have adequate knowledge upon which to base an effective stabilisation strategy. Economists were able to provide information that was of great value but their assistance was deficient because being primarily statistical in nature it provided little insight as to " how prosperity, crisis, depression and revival affect the inner workings of the business enterprise. We are in the position of knowing a good deal about the forest, but very little about the individual trees. Indeed we can scarcely see the trees at all; the statistics show us only the forest" (Ibid., 167-168). In words that could equally have been offered by F.W. Taylor, Mitchell concluded his address by observing:
I do not suggest that ... success in foreseeing the future ... is likely soon to become the general rule. Nor do I suggest that prevision would always mean prevention. Indeed, I think we have a long way to go before we can gain the insight that will be necessary to accomplish more than a mitigation of such disastrous experiences as we have recently suffered. But every business concern which does manage to forecast correctly the course of events which affects its operations, and to shape its plans accordingly will benefit, not only its proprietors and employees, but also every other business concern from which it buys or borrows and every concern to which it sells or lends. And it certainly benefits the general public so far as it keeps its men at work and steadies the supply of goods which it produces for consumers. If your profession can contribute to this result you will be aiding a process which should grow at a cumulative rate, once it gets under way (Ibid., 170).

So it would seem that in the early 1920s, Mitchell revised his view of business cycles and came to believe, in the words of one of his students Eli Ginzberg, "that the individual concern can effect materially the course of business fluctuations" (Ginzberg 1931 [1997], 387).

Accordingly, when the business cycle report was eventually released in 1923, as Business Cycles and Unemployment, it included a chapter in which Mitchell again surveyed remedies for stabilise business cycles. However, this time he began his discussion by detailing the contribution that could be made by the managers of individual enterprises before turning to those issues that had formerly monopolised his attention. In addition to government fiscal and monetary measures, the report also included a number of chapters written by Taylor Society members dealing with firm-level stabilisation measures – particular those practiced at companies managed by scientific managers like the Dennison Manufacturing Co. The report drew heavily on Dennison’s pioneering measures to reduce seasonal and cyclical fluctuations in production, countercyclical investment and plant extensions, and unemployment insurance (Business Cycles and Unemployment 1923, 118-133; 336-338).

**Dennison and the Stabilisation Literature of the 1920s**

That the logic of business stabilisation impacted on economists other than Mitchell is vindicated by the spate of publications in this field in the early to mid 1920s, and also by the fact that Dennison’s policies crept into the wider economics literature. As noted in the
previous chapter, Paul Douglas in 1918 devoted a great deal of attention to how *Dennison Manufacturing* and other scientifically managed companies reduced labour turnover, focusing on particular on the *Dennison* employment department and profit-sharing plan, noting further that such measures are “but the logical extension to the human side of industry of the scientific principles that have hitherto been employed on the mechanical side” (Douglas 1918, 315). Gordon Watkins in 1924 noted that “prominent among the concerns that have adopted a systematic plan for the prevention and relief of unemployment is the Dennison Manufacturing Company of Framingham, Mass.” (Watkins 1924, 236). The next year, prominent labour economist Edgar Furniss discussed at length the *Dennison* company measures for the prevention and relief of unemployment noting that

> the employer can both reduce, by skilful management, the amount of unemployment amongst his employees, and can mitigate the hardship of such unemployment as cannot be avoided by making reservations for contingencies beyond his control. The Dennison Manufacturing Company is undertaking to work out measures for meeting this twofold responsibility (Furniss 1925, 68).

For his part Dennison, in a bid to make public what he had implemented in his own firm, contributed to three major stabilisation studies conducted in the 1920s: Lionel Edie’s *The Stabilization of Business* (1923), Herman Feldman’s *The Regularization of Employment* (1925), and John Commons and Don Lescohier’s *Can Business Prevent Unemployment?* (1925).

*The Stabilization of Business* (1923) was edited by Lionel Edie and comprised contributions from the leading economists of the day, including Wesley Mitchell, John Commons, Edwin Seligman and John B. Andrews, and also Irving Fisher who joined the Taylor Society around the time of publication. Herbert Hoover also contributed the introductory chapter. The volume had a broad macro outlook as to the problems of controlling and stabilising the business cycle. Mitchell’s chapter dealt with his speciality, the business cycle, but did not reveal his embrace of microeconomic measures; Fisher’s
dealt with currency stabilisation; Commons' dealt with unemployment prevention and insurance; and John B. Andrews' focused on countercyclical public works spending.

Indicative of his growing public status and the respect for his grasp of economics, Henry Dennison also wrote a chapter on business stabilisation. This chapter, discussed earlier, was a micro-focused guide for managers as to what they could do within their own enterprises to smooth the cycle. It earned Dennison a place alongside the giants of the so-called "new economics", this phrase coined the year before by the editor, Edie, in another volume, *Principles of the New Economics*, which purported to synthesise the old economic theory with the "departures from the orthodox economic doctrines prevalent at the close of the last century", chiefly, the "psychological school" and institutional economics.

Two other books deserve mention for their illustrative value as regards the spread of the business stabilisation idea amongst the economics community. The first, Herman Feldman's *The Regularization of Employment* (1925), was a monumental treatise covering the effects of unemployment, individual and industrial remedies (micro-focus) and social and governmental remedies (macro-focus). The second, entitled *Can Business Prevent Unemployment* (1925) was an interesting collaboration between the University of Wisconsin economics professors, John Commons and Don Lescohier, and two corporate liberals, Sam Lewisohn and E. G. Draper, who together headed the American Management Association. Lewisohn was a former AALL president and also a member of the Taylor Society.

Feldman's volume was an unofficial outcome of his experience as part of the Economic Advisory Committee of the President's 1921 Unemployment Conference but it was expanded under the auspices of the AMA's stabilisation committee; a body including Sam Lewisohn, S.A. Lindsay, Columbia professor of social legislation, and Henry Dennison. Dennison contributed to this volume in two important ways. First, it drew heavily on established practice at *Dennison Manufacturing*. Second, he was said to have

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14 His chapter was an abridged version of his 1922 address before the American Statistical Association reproduced in their journal.
undertaken a "keen and painstaking criticism of the manuscript", as revealed by Feldman in the preface.

Feldman's stated aim in *The Regularization of Employment* (1925) was "to present materials for discussion so as to enable economists, employers, general readers, and students of the problem of unemployment to get a better understanding of the ways and means of prevention of unemployment and thereby promote the regularization of employment" (Feldman 1925, xvi). To this end, Feldman's contention was that the main point of attack should be on the relative insecurity of employment due to the "cross currents of modern industry" rather than on the relative amount of unemployment per se. "Insecurity is the basic condition", he asserted, whilst "(u)employment is but an incidental effect" (*Ibid.*, 19). This is so, he believed, because the effects of insecure or unstable employment on the individual and on industry itself are possibly more disastrous than those of unemployment. As he stated:

The effect of uncertainty upon any one individual may be less destructive than that of actual unemployment, but as the number of persons unemployed is at all times smaller than the number living in fear of it, the cumulative effects of the latter may well be greater. Moreover, the industrial conditions back of insecurity of employment are irregularity and discontinuity of operation. The economic wastes and losses accompanying such methods of conducting industry are enormous (*Ibid.*, 21).

Accordingly, Feldman believed that his and other American unemployment enquiries were superior to the earlier British studies which merely look to remedy the effect (unemployment) rather than the cause (irregular employment), and so, failed to emphasise the need for better business management, which he regarded as a "new American emphasis" (*Ibid.*, 47-50).

Feldman proceeded to analyse the effects of irregular employment on the worker, the employer, and the consumer. In this vein, his text resembled other stabilisation "propaganda" of the 1920s in that, in his bid to influence management behaviour and

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15 Apart from his role in the Economic Advisory Committee, Herman Feldman was a professor of industrial relations at the Amos Tuck School at Dartmouth. He joined the Taylor Society in 1923 and published an extensive history of management practice at the Dennison Manufacturing Company in *Industrial Management* in 1922.
exhort business leaders to adopt micro strategies for macro problems, he not only stresses the social ramifications of such to appeal to the "New Capitalist", progressive, welfare bent, but he also highlighted that it was profitable to do so. He illustrated how workers' incomes, independence, health and attitude to industry and life are affected by unstable employment. He demonstrated how irregular operations result in business losses by causing higher labour and overhead costs, and also that "(t)here may also be some loss in the cost of materials due to money investment lost in materials not put into production and to depreciation and waste of such materials" (Ibid., 27). In addition, he asserted that unstable employment would result in restricted output by workers attempting to 'stretch' the amount of work necessary, impairment of skill and productivity, and add to the costs of labour turnover – all of which point to business losses. And he highlighted that such losses are normally shifted to the consumer in terms of higher prices and so, eroded purchasing power (Ibid., 22-38).

Feldman's core thesis regarding the cause of irregular employment was that the "almost invariable antecedent is the astonishing indifference of industry...to the human problem" – the "indifference of management" to the harmful effects of the business cycle on maintaining continuous output and employment (Ibid., 63; 66). Therefore, continuity of employment, for Feldman, had to become one of the major goals of industry. This in turn implied that managers must become responsible for regularising employment, notably the head of the firm. As he stated:

The responsibility for a program of regularizing employment in any plant lies especially on the head of the firm. The conditions that must be mastered in order to achieve a substantial regularity of employment make the attitude of the highest management towards this matter of supreme importance. A firm will solve the problem of regularization only as it solves each of the minute and specific causes discoverable in marketing policy, in production technique, in management of personnel, in trade action, in stubborn social customs and other factors. ...Unless the chief executive is guided by the consistent purpose of reducing fluctuations in operation and employment to the minimum, progress will be hampered by too many difficulties. Success requires not merely the assent of the directing heads of the firm, but their most active leadership (Ibid., 68-69).

The remainder of the volume was concerned with individual, industrial, and government remedies to irregular employment. In terms of individual remedies, Feldman
encapsulated the essence of the conception of the "New Competition", when he asserted that in discussing techniques of regularisation, "(f)irst place in this discussion is given to the subject of distribution because every other method of steadying work or of providing for the worker when he is unemployed depends chiefly on the degree of control achieved over demand" (Ibid., 74; italics in original). And furthermore,

(when the individual manufacturer...has acquired some influence over the kinds of goods wanted, the time when they are ordered, the amount desired, and other elements involved, the foundations for marked improvement in the steadying of industrial operations have been laid. Give any firm assurance of distribution of a certain volume of goods, and it should have little difficulty in regularizing employment (Ibid.).

Feldman summarised the position when he notes that "the technique of production planning has already advanced to the point that makes exact scheduling possible", however, "subject the most scientific management to an uncontrolled demand" and the results will be disastrous (Ibid.; italics added). Therefore he implied that scientific management must be applied to the demand side with the same planning techniques for production to be used in distribution - a notion that was given considerable attention by the Taylor Society in the early and mid 1920s.

Also published in 1925 was Can Business Prevent Unemployment?, authored by Sam Lewisohn, Ernest Draper (both from the AMA's regularisation committee), John R. Commons and Don Lescohier. This volume drew heavily on Feldman's work and also on case studies of individual companies. Accordingly, it had a micro focus surveying, industry by industry, successful stabilisation measures adopted by individual progressive managers, including those of the Dennison Manufacturing Company. Not surprisingly, it also reflected the "New Capitalist" creed of 'serviceability' and stressed that unemployment was not only wasteful from a social point of view, but that "is a needless waste which cuts down business profits" and is "often the measure of inefficiency in...business or industry" (Lewisohn et al 1925, 1). The Dennison company was cited with regards to its studying and analysing the business cycle and the techniques employed to stabilise output and employment during downturns. Reference was made also to the
company's pioneering efforts in unemployment insurance and the overall principle of emphasising the worth prevention before relief.

The volume also reflected the belief in legislation as a last resort, and so, a reliance on the "self-help" of the "insiders of industry", business executives. These same executives should realise, the authors contended, that they have played a vital role in building up an enormous industrial structure within which a large percentage of the working population spend their lives. Accordingly, they had a duty and a responsibility of "conducting a business as to give, as far as it is humanly possible, continuous employment to the working force" (Ibid., 3). Furthermore, there was no contradiction, they contended, between profits and productivity on the one hand and public obligation and human responsibility on the other. "To keep a constant and loyal working force is profitable" they argued, "and so is the business analysis and stabilization which results in making regular the employment of that force" (Ibid., 3-4).

Conclusion

This chapter explored the genesis of Dennison's micro-based business cycle theory as it evolved from the business stabilisation and from his contacts with Gay and Mitchell. It was demonstrated that Dennison's theory was both original and influential. Though fostered more by intuition and the practical exigencies of managing a business than by a concern with elegant theory, Dennison's questioning of the perceived inevitability of business cycles and his location of the root cause in the 'crests' of cycles, for all practical purposes, coincided with Mitchell's. Much could be done to smooth cycles and ward off disaster, Dennison argued, at the level of the firm as well as in the macroeconomy. This was a view that Mitchell ultimately embrace—for which Dennison was partially responsible—and one that permeated both public discussion and the business cycle literature of the 1920s.
While Dennison, like minded corporate liberals, and most economists were cognisant of the causes of and supposed remedies for cyclical downturns in the economy, on the eve of the Great Depression few foresaw the magnitude and the duration of the ensuing collapse. Utilising the cooperative, self-regulatory framework fostered by the Hooverian 'New Era', it was widely believed that informed and planned economic advance had replaced cut-throat competition and instability. The onset and particularly the duration of the Depression, therefore, was as much a shock to Dennison as it was for business leaders and economists in the main. These events had a dramatic impact on Dennison personally, both in terms of his fortunes at the DMC and in terms of his thinking on economic matters, particularly as regards the issue of state and organised labour involvement in economic affairs.

It will be seen that as the economic crisis worsened Dennison became increasingly critical of the efficacy of laissez-faire and came to accept the need for some form of national economic planning. Though this was a perspective shared by many others, exactly what form this planning would take was a matter of much debate. Opinion was divided between those wanting a 'corporatist' or business self-regulatory framework with the state as an impartial referee, and those wanting the state to play a more direct role in economic affairs, particularly involving its spending and taxing powers, who believed in a more "Keynesian" solution (Hawley 1966; Pabon 1992, 177). In other words, between those wanting a revision of the antitrust laws to allow...
cartelisation or "industrial self-government" with a negligible role for the state and organised labour, and those wanting a "collectivist industrial democracy" in which planning was carried on by the joint participation of government, business, labor, and consumer groups. Ultimately, the former won out in the 'First' New Deal [1933-35] while the latter prospered under the 'Second' New Deal' [1935-1937] (Hawley 1966; Pabon 1992, 200).

Apart from shaping the contours of the ‘two’ New Deals, these planning debates resulted in a fundamental shift in Dennison’s thinking regarding both the nature and magnitude of state involvement in the economy. The chapter begins with a discussion of Dennison’s critique of laissez-faire and then overviews depression discourse amongst economists and business men in order to contextualise Dennison’s views on economic planning. It then proceeds to Dennison’s economic thought vis-a-vis the Depression and the New Deal paying particular attention to how his involvement in depression discourse and New Deal planning shaped his conception of exactly how the state should be involved in economic management. This sets the scene, then, for his proto-Keynesian macro policy conceptions which were enriched following his intellectual relationship with J.K. Galbraith, the subject of Chapter Six.

**Dennison on the Free Market and Laissez-Faire Liberalism**

Though he had questioned the efficacy of laissez-faire—at least at an intellectual level—as a guiding philosophy for 20th century economic affairs since the 1920s, this did not immediately translate into Dennison embracing an activist state but instead reinforced his belief in the power of organised business to perform a large degree of the coordination traditionally attributed to the market. However, given the magnitude and

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1 This view was said to emanate in part, “from the system of ideas developed by such men as Frederick W. Taylor and Henry L. Gantt and applied to the economy as a whole by writers influenced by Thorstein Veblen” (Hawley 1966, 36-45).

2 Most historians divide the New Deal into two distinct periods with very different consequences for capital and labour; the ‘First’ New Deal (1933-35) more or less ceded to the demands of the business community whereas the ‘Second’ New Deal (1935-37) catered more to the demands of organised labour.
the duration of the Depression Dennison's views in this regard evolved and subsequently he accepted the need for more positive government involvement.

Dennison's doubts concerning laissez-faire appeared as early as 1923 in an unpublished paper entitled 'The Government of Business'. Traversing the economic development of Britain, continental Europe and the 'New World' of North America into the 20th century, Dennison argued that

the Liberal State, l'etat gendarme of Say, the 'watchdog and defender of liberty' of (Ramsey) Muir, has in our time already enlarged its functions, is still enlarging them, and seems likely to continue further in carrying the apostles of liberalism to new orientation in point of view (Dennison 1923c, 4; parentheses added).

For, business and government, he argued, "are neither today nor in the past separated activities, seeking unrelated ends. They are constantly inter-related, and since they do not exist independently of each other, neither...can be understood without studying both" (Ibid., 5).

This change in the liberal conception of the state, Dennison believed, was the result of a "deep-seated shift in the obscure and complex balance of motives which make man the social being he is". As seen in Chapters One and Two, Dennison had a different conception of human nature to mainstream economists and crude practitioners of Taylorism. He conceived of human action as guided by the "co-existing and inextricably correlated" motives or impulses of self-interest (centrifugal) and social or "gregarious" (centripetal). Though the self-interest motive, coveted as it was by laissez-faire liberals, seemed to engender freedom, "the impulse toward association and group solidarity seems to bind...and is the deeper and stronger, or social life would cease" (Ibid., 15). And while the self-seeking motive, "the self-sufficiency and daring of the isolated pioneer", was lifted in the scale of social estimation from the Renaissance voyages of discovery to the time of colonial settlement in America, he believed it was no longer as relevant in the 20th century.
That theory, as we have seen, was rooted in the social need of the time for more efficient and energetic individuals and, in fact, based on observation and experience, that such individuals were produced by society's shift of emphasis to the motive of self-interest (Ibid., 21).

Unfortunately, he argued further, the Classical economists were slow to catch on. For, "following the train of practical wont and usage, they crystalized the growing social sentiment in the doctrine of laissez-faire" (Ibid., 17). Studying the material needs of their society, they were not inclined to pay close attention to the psychological and philosophical bases of their analyses:

The classical economists exaggerated the part played by 'self-interest' and neglected or greatly undervalued the social motive, but this one-sided emphasis is explained by the fact that the contemporary economic and social demand of their historical period was for the more vigorous initiative and variety of experiments resulting from the release of self-interest. They did not realize that an overbalance of self interest in the social complex is disintegrating and ultimately disruptive (Ibid., 27).

This is an important point as it represents the psycho-philosophical basis for Dennison's questioning of the efficacy of laissez-faire liberalism for 'regulating' 20th century American economic life.

Dennison argued further that the capitalist system, vividly personified by the factory system and fuelled by the ethos of individualism, actually engendered a shift in thought as regards the state. Reminiscent of Marx (and of Galbraith's later notion of countervailing power), Dennison believed that the autocratic factory system engendered class consciousness amongst workers and led them to turn to trade unions, and by so doing, revived the social motive. Contemporaneously this led to the growth of trade associations amongst managers and also cooperative associations amongst producers of consumer and agricultural goods (Ibid., 31). As he observed:

The social psychology is reacting, normally and logically, from the threatening disintegration of self-interest, overemphasized, to the socially reintegrating, institutionally constructive work which the social motive inspires (Ibid., 35).
In the field of business, he concluded, after accomplishing its great work competitive self-interest has found itself constrained by endogenous and exogenous checks and balances. But he emphasised that these regulatory constraints "from more permanently valuable social motives do not necessarily imply the abolition or even the undue suppression of competition. The problem is not one of either-or but of somewhat more or somewhat less" (Ibid., 36). Significant for Dennison is this regard is the fact that a large proportion of the calls for increased regulation have come from businessmen themselves: "the balance of motive in Big Business has shifted from the stark self-interest of its beginnings under laissez-faire to the social motive which is clearly apparent in their adoption of ethical codes" (Ibid., 43). It is important to note here that in the early 1920s, Dennison sustained a belief in the capacity of management professionalism and corporate self-regulation to allay the harmful effects of cut-throat competition. Nowhere in his thought at this time is there a consideration of a more positive or active role for the state in economic affairs.

One witnesses the first inkling of Dennison's move to interventionism—at least in the sense of institutional intervention—in a paper written in 1926 (in a publication explored in Chapter Two) where he took difference with Harvard professor T.N. Carver's defence of laissez faire capitalism—what he called "Dr. Carver's confidence in the beneficent flow of things economic, if left alone". Dennison argued that though he could not accept much of what the latter offered in defence of laissez-faire capitalism, "I am not planning to abolish the system". He maintained that his "quarrel is not with joint stock companies as such; far less with the capitalistic system as such", but with the fact that Carver believed "the faults of the present scheme of things to be relatively superficial and practically certain of speedy cure if we allow nature to keep on its present course and avoid special inventions and interventions which could disturb its course" (Dennison 1926e, 269-270; emphasis added). Dennison argued that "the system doesn't need defence, but analysis; it doesn't need rescinding, but progressive amending" (Dennison 1925b, 2-3; 1926e, 270). As he noted:

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There are things we can do to help progress;...the system is not wholly a 'self-righting' system;...there are possibilities of better understanding and adapting to man's real advantage the forces and resistances in the field of man's economic relationships – chances for social intervention (Dennison 1926e, 270; emphasis in original).

In response to a comment regarding Carver's line of thought as being "that which survives in the economic system thereby justifies itself", Dennison replied that though this might be the traditional view of economists, it certainly was not one he shared. He was clearly of the belief in informed intervention in the social complex, largely at this juncture though, by organised business interests.

These excerpts eloquently capture Dennison's lack of faith in the merits of the free market system supposedly managed by some omnipresent 'invisible hand', and his concomitant belief in the need for institutional intervention and correction by cooperative business planning. Like the 'founding fathers' of institutionalism, he had no interest in replacing this imperfect system, only improving it by the application of enlightened scientific management. He did not wish to replace the profit motive in the affairs of management, only make it secondary to the service motive.

With the onset of the Depression in the early 1930s, Dennison amplified his distrust of laissez-faire. He conveyed his doubts to Edwin Gay in a letter dated December 29, 1931. This letter had the same style as others alluded to in the thesis: he expressed his opinions in the form of ponderings or educated speculations rather than assertions. As he wrote:

Dear Ed:

I find myself wondering more and more whether there isn't a kink in the very foundations of things which has got to come out—partly anyhow—or we'll run inevitably towards more and more trouble. 

One real influence exaggerating the cycle's swing was, I'm sure, the heavy proportion of national income going where it was most likely to be invested or spent in ways easy to cut down suddenly, i.e., to stockholders and in general the relatively well-to-do. ...

The guts of the matter is that our whole set-up, financial and legal, forces an almost exclusive consideration of property owners.... What I'm after are measures to reduce the disproportion between the fundamental liens of capital and those of labor. ...
The guts of the question is whether we should let the economic system find its balance between the need for capital and supply or work out such measures as tend towards such balance. Just now I'm fearful I've lost my own balance on such questions since I can't find in me much faith in the self-righting faculties of the System (Dennison to Gay, Gay Papers – Huntington Library; emphasis added).

He continued in this vein in a paper prepared for a study group conducted by Gay at Harvard Business School in early August 1932, 'A Five-Year Plan For Planning'. Dennison here divorced himself from his immediate business experience to undertake a philosophical consideration of economic planning. To date, and as explored in the previous chapter, Dennison's conception of planning was focused on the microeconomy; that is, on individual business managers planning out their production and distribution processes. But from 1932 and into the New Deal, it is clear Dennison conceived of planning as a national affair with a specific role for the federal government.

Dennison began by tackling the critics of planning, focusing in particular on the arguments of (what he termed) the "Lazy Fairies", that "government must get its hands off business", that any form of planning is an "intrusion of government into business affairs" and that "laissez-faire individualism contains within itself an automatic planning superior in the long run to any other". His counter to these critiques is worthy of quoting in full. To those individuals that believed "business and government are two separate segments of the total social structure" except when they condone interference "when they can see it react in their favour", Dennison stated that:

the fields of economics and politics in the last few hundred years have interpenetrated more and more intimately with every step in the development of the industrial system, the credit structure, and the facility of communication. The fields (of economics and politics), in fact, have never been separate or clearly separable, and that they are becoming less so with every year that passes (Dennison 1932c, 2; parentheses added).

To those who believe in the efficacy of the 'invisible hand' of individualism, he further asserted:

To give their automatic planning system a test we must first have a system of laissez-faire, and that, moreover, in a modern world where frontiers of pioneer settlement are no longer wide open. We must, for example,
eliminate virtually all tariffs at home and abroad, abolish the ICC, and the Federal Reserve Board, reduce to insignificance the economic effects of taxation and of the issuance and retirement of government bonds, and make other minor alterations. Putter once with a delicate automatic system and it becomes more delicate, and no longer automatic (Ibid., 4).

In other words, it was obvious to Dennison that given the extent of institutional intervention at a national (and international) level already at work under a so-called competitive system, it was fallacious for critics to argue that planning would destroy something that clearly did not exist and moreover, had never existed.

In the remainder of the paper he outlined his planning philosophy and the means by which national planning could be implemented. He argued that planning must be flexible and variable, range over the course of the business cycle, "and guide the actions of the business world". In its initial stages it could not be compulsory for he believed that "any measures approaching compulsion will be impossible". Yet by the same token, he was derisive of exhortation in the Hooverian sense as a means of effecting policy, citing the abortive attempts of the Department of Commerce to influence the actions of business leaders en masse stating that

when warnings are given by the Department of Commerce of the increase of stocks, or over-equipment in certain industries, seldom has any slowing up of the growth in production or productive equipment been noticeable. But this is bad planning, for it should be recognized that when the natural economic forces in an individualistic system are working strongly in one direction, words of advice and warning are as the wind blowing in the trees (Ibid., 7-8).

What he sought, therefore, was a balance between compulsion and exhortation. What he envisioned was a pragmatic partnership; for each party to recognise the nature of their interdependencies and build on existing and real relationships rather than on philosophical supposition. In this way, he conceived of planning in evolutionary rather than revolutionary terms, as advisory and educational and in consultation with Congress, trade associations, and other organised representatives of the people. National planning would be a flexible process involving cooperation between organised groups. His proposed Planning Board or Council would consist of "members willing to consult with existing research agencies in business, cooperating with both the executive branch
and Congressional committees, and educating the wider public" (Reagan 1982, 183). Such members, he said, should come from the ranks of "business professionalism"; that is economists, "engineer-businessmen", analytical accountants, highly trained trade association managers, and political scientists. Overall,

(o)ur National Planning will by its nature aim at evolution not revolution. It will have to do with an organic entity, with that group of human beings, human institutions, and human habit patterns which we call the United States of to-day.

The problem...is therefore not how to jump from complete laissez-faire to complete social control. We haven't, and never have had, the one, and haven't, and probably never will have the other (Ibid., 9-10; emphasis added).

In late August 1932, Dennison presented this paper at the Twelfth Session of the Institute of Politics' Roundtables and General Conferences series at Williamstown, Massachusetts, at a session entitled 'The Disintegration of the Modern World Order'. This session was co-chaired by eminent British historian Arnold Toynbee and Edwin Gay and was attended, among others, by conservative economists T.E. Gregory from the London School of Economics and Harvard's T.N. Carver. Gay opened the meeting with a general discussion of planning highlighting the fact that the capitalist system is not as unsystematic and chaotic as its critics contend. He highlighted the fact that the factory system, the heart of capitalism, is highly systematised whilst the evolving and spreading corporate form of business enterprise is routinised and conducted by orderly management. "That means planning", he asserted, but planning of a "piecemeal and incomplete" nature. He stated further that the present depression has provoked "an apparently new demand for planning on a national basis". In this regard, he cited the enterprising efforts to promote planning by Swope, Harriman, and LaFollette. He concluded by observing that though the Depression has brought to people's minds the necessity for amendment of the capitalist system, it "is still extremely strong. It is not bankrupt" (Gay 1932, 59-60). Planning, need only seek to improve, not replace, capitalism.
Though the broad topic of Dennison's discussion was 'A Five Year Plan For Planning', his discussion at the Institute was appreciably different from the paper read before Gay's Harvard study group earlier in the month. Dennison's discussion involved him fielding questions from discussants regarding his plan. He stressed that his tentative program was "not prepared as a project for a scientific survey of all the factors involved in our present difficult situation". Even in his own mind, Dennison was not completely clear on what national planning should entail. Furthermore, years of practical experience in planning at his company, he noted, led him to believe that no plan can be devised completely at the outset. Accordingly his program was more a practical suggestion of study and recommendation, to learn the lessons which the great depression has taught and then concurrently to find ways and means to put into effect measures for the betterment of our existing economic institutions and conditions (Dennison 1932d, 66).

For this purpose, a National Economic Commission "with ample powers of investigation and recommendation should be promptly appointed by the government" (Ibid., 68) to allow the National Council to "plan its plan". In addition, use should be made of existing economic studies. Whilst for unexplored terrain, "competent agencies of economic and social research should be called on for aid". He also suggested the "planning resources and activities of trade associations and similar business organisations" be called upon to assist in this endeavour (Ibid., 66). Dennison here appeared to be alluding to his experience with some of the recent Hoover initiatives such as the Recent Economic Changes study, and also his work with the NBER and the National Chamber of Commerce as indicative of the type of agency that could assist and supplement both his proposed National Commission and the National Council. At this time it can be seen that his conception of state involvement was still very much Hooverian: with government as a provider of information to business rather than as a direct player in economic affairs. This view would undergo a fundamental transformation during the New Deal.
Turning to Dennison’s role in the planning debates of the 1930s, throughout 1931 he lent his support to the aforementioned lobbying in congress of Senator Robert La Follette, to the efforts of economists such as Foster and Catchings, and to Gerard Swope and Henry Harriman in the business community. In so doing, he called for the acceleration of public works spending and the formation of a National Economic Council to set economic policies and priorities (McQuaid 1975, 169). Yet his exact position vis à vis the planning ideologies competing to shape the New Deal(s) did not remain static. Initially he was part of the “corporatist” group mooting industrial cartelisation and self-regulation, but as time progressed he became increasingly disenchanted with this perspective and openly embraced a more positive role both for government and organised labour in macroeconomic management. In this way he was relatively unique amongst his peers, for few conservative or liberal business people were willing to embrace the level of economic democracy eventually to be advocated by Roosevelt. And as will be seen in more depth in the next chapter, he was also unique in the business community at this time in that he proffered a proto-Keynesian tonic of public spending to supplement what he believed was a shortfall in private spending (Davis 1967; Pabon 1992; Bruce 1992; Lee 1995).3

Despite a plethora of emergency measures to dispel the atmosphere of fear pervading the US and restore confidence, Hoover’s concerns with a balanced budget and decentralised execution of unemployment relief measures ultimately led to his political demise. As one commentator has observed of Hoover, “when the opportunity arose to illustrate their [public works spending] efficacy at a macro level, his concern for the annually balanced budget overrode his presidential proclivity for a ‘shelf’ of public construction” (Davis 1967, 48; parentheses added). His insistence on reducing

3 As will be seen in the next chapter, this view would charge his intellectual relationship with a young economist, John Kenneth Galbraith, who in the late 1930s became Dennison’s tutor-in-residence and lifelong friend thereafter.  
4 Including an historically unparalleled appeal to employers to maintain stable wage rates against the advice of his Treasury Secretary, Andrew Mellon.
the deficit by cutting spending and increasing taxes, even in the deepest depths of depression in 1932, ran counter to the beliefs of his traditional support base in the ranks of the engineering and Taylorist movements. It also ran against a growing tide of opinion amongst economists and businessmen, an increasing number of whom were becoming convinced that that some form of federal guidance or planning in economic affairs was necessary. Though the arguments of this echelon of the economics profession were by no means homogeneous, they did share a common view that it was futile to pretend that the nation's economic ill health might be cured without government intervention. Apart from causing great concern amongst those economists beseeching him to adopt an 'expansionist' solution, Hoover also lost the support of Henry Dennison who changed his vote from Republican to Democrat in the 1932 elections and subsequently joined Roosevelt's New Deal (Pabon 1992, 72; McQuaid 1977, 88; Davis 1967, 197; Barber 1996, 2).5

Initially, those economists who supported the business stabilisation measures of the 1920s applauded Hoover's potential arsenal of accelerated public works, his cajoling of the public, and his insistence on wage maintenance. Mainstream, orthodox economists, however, expressed serious doubts as to the efficacy of sustaining wages as a means of recovery, for in their minds this would add to the rising tide of unemployment (Barber 1987, 87-91).6 Brute facts, as Barber (1996, 2) has argued, were not enough to shake the faith of the pure believers in the basic model of full employment: they could argue that the world—not the model—was out of joint.

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5 Yet it must be noted that despite Hoover's political or verbal stance on the balanced budget and his deep-seated commitment to fiscal federalism and individualism, his actions in the 1920s and into the 30s—his calls for accelerated construction spending, increased private investment, and wage maintenance—suggest that he had an intuitive understanding of the mechanisms of income determination far advanced than most professional economists (Barber 1985, 189). Many analysts believe that Hoover's Reconstruction Finance Construction was one of the first steps in the direction of the New Deal.

6 For instance, before his first AEA general meeting in December 1930, Schumpeter maintained that the severity of the Depression was attributable to wage rigidities interfering with a satisfactory equilibrium (Schumpeter 1931, 181). At the same meeting, Alvin Hansen, not yet a Keynesian convert, expressed the same reservations about Hoover's appeal to employers to resist wage cutting, arguing that rigid wages coupled with the litany of institutional arrangements and government regulations compounded the difficulties of recovery (Barber 1987, 194-195).
Yet the so-called "classical" view that depressions could be cured by wage deflation to engender greater demand for labour was not as widely favoured by economists as proponents of a so-called Keynesian "revolution", or the later "Keynes vs. the Classics" debate, have contended. In fact, many economists of varying stripes prescribed a proto-Keynesian tonic of boosting effective demand by bond-financed public spending. This being the case, Hoover's balanced-budget, decentralised approach began to come under fire from economists and members of the general public towards the winter of 1930-31 when unemployment reached startling proportions.

Prodded into action by the push for increased public works spending from the so-called "amateur expansionists"—the most notable of which was media baron William Randolph Hearst—many economists began to question Hoover's apparent fetish for an annually balanced budget. As Barber expressed it, these economists believed that it was "the shortfall in consumption expenditure that accounted for the failure of much of the private business sector to follow the lead of the governments and of the regulated industries by enlarging capital commitments". Overall, "they gave short shrift to the notion that the federal government should be at pains to avoid encroaching on the normal functions of state and local authorities" (Barber 1985, 100; 148).

By 1932, therefore, many economists began to be vocal in public dialogue concerning the cause and cure for the Depression. As Barber has further observed:

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7 In one study of pre-General Theory demand management (though this nomenclature was not applied until later) policy proposals in the US, Davis stated that "a large majority of leading US economists affirmed, as did Keynes, the usefulness of fiscal policy and the uselessness of money wage reductions in fighting business depression". And so, "Keynes cannot claim to have converted leading members of the economics profession to his views on policy, for the reason that the profession already held his views (in some cases before he did)" (Davis 1971, 6-7). Other studies in this vein include Bruce (1992) and Pabon (1992).

8 Hearst, for instance, after holding a conference to sample professional opinion regarding his 'prosperity bond' proposal in January 1932, received the signed support of 31 "scientific economists" including Harvard's Thomas N. Carver, Columbia's Arthur Gayer, Chicago's Paul H. Douglas, and William T. Foster, one half of the Foster and Catchings team (Dorfman 1959, 617, 675; Davis 1971, 10). During the late 1920s, W.T. Foster and W. Catchings gained notoriety for their underconsumptionist explanation for downturns, asserting that shortfalls in private consumption had to be supplemented by public spending in order to absorb output and mitigate cyclical disturbances. These proposals were warmly endorsed by the Taylor Society (Davis 1967, 65-67). Into the 30s, they argued similarly that the persisting ills of the economy emanated from the public attempting to save too much and spend too little.
The absence of any signs of a significant upturn in the economy by 1932 made it difficult for many economists of the orthodox persuasion to hold firm in their opposition to heterodox experiments by governments (Ibid., 196).

And elsewhere:

The economic environment of the early 1930s proved to be auspicious for economic thinkers with heterodox leanings who then found some attentive listeners (Barber 1996, 2).

So while Hoover did not significantly widen his group of economic advisers, he received much unsolicited advice from the economics profession, both from individuals and groups of economists. Of the more outspoken critics of Hoover's budgetary policy, for instance, were Sumner Slichter and the 'infamous' team of Foster and Catchings, all of whom ridiculed the government for its concern with balanced budgets and its failure to recognise the need to increase aggregate spending. (Davis 1971, 12; 18). The latter were typical of those economists refuting the annually balanced budget as a fiscal norm and who challenged the Hoover view that less spending and higher taxes were the keys to recovery and stability.

These economists were not alone inasmuch as there was a diverse array of economists who banded together to urge Congress to abandon budgetary balance and plan for deficit spending (Davis 1971, 70). For instance, earlier in January 1930, New York senator Robert Wagner had introduced a bill advocating an Employment Stabilisation Board for planning public works construction to the tune of $5.5 billion for the purpose of stabilising industry and relieving unemployment. Many of the leading economists of the day signed a petition to Congress endorsing the proposal, but the

9 See Dorfman (1959), Davis (1967; 1971) and Barber (1985) for a discussion of economists' attempts to sway Hoover.

10 It was a variation on a bill introduced in 1928 by Otto Mallery, an economist, labour legislation leader and Taylor Society member.

11 Among the endorsees were Taylor Society members Morris Cooke, E.A. Filene, Irving Fisher, Otto Mallery, Henry Seager, and Ordway Tead, and also J.B. Clark, J.M. Clark, John Commons, Paul Douglas, Sidney Hillman, Paul Homan, Harold Moulton, and Frank Taussig. For a full list of petition endorsees, see Davis (1971, 157-58).
bill received a lukewarm reception in Congress and was later amended to exclude the appropriation clause. Subsequently, in April 1932, Wagner decided to sample professional opinion on a bonded public construction program of a more modest $1 billion sending an open letter to a number of foremost economists and business managers. Wagner believed that spending would not only provide employment and directly stimulate industries supplying the construction industry, but would also indirectly "promote a stiffening of demand for the diversified products of farm and factory" (Wagner Letter 1932, 10309).

As Davis (1967, 72-73) has noted, the responses Wagner received—presented to the Senate in May—"were indicative of professional opinion and represented a remarkable symposium on the question of borrowing to finance public works construction as an amelioration for depression". The overwhelming weight of opinion favoured immediate passage of the bill, illustrating that there were a diverse array of economists, pre-\textit{General Theory}, advocating calling for an abandonment of budgetary balance and advocating deficit spending as a way out of the crisis.\textsuperscript{12}

Wagner also elicited opinions from business managers and "students of industrial conditions", who were predominantly from the Taylor Society.\textsuperscript{13} All were in agreement with Wagner, particularly Ordway Tead, who voiced his scepticism regarding Hoover's 'voluntaristic' approach and stated that he seriously doubted that business could recover without some form of federal government assistance. He believed that the bond-financed spending would "at least help somewhat in the direction

\textsuperscript{12} Among the noteworthy economists eliciting positive responses to the Wagner Bill, were Frank Knight and Frank Taussig. Knight replied to Wagner that to the best of his knowledge, "economists are completely agreed that the Government should spend as much and tax as little as possible, at a time such as this – using the expenditure in the way to do the most good in itself and also to point toward relieving the depression" (Wagner Letter 1932, 10323). Other positive respondents included institutionalist Walton Hamilton from Yale, who also lamented the over-emphasis on balanced budgets, warning that any further reductions in federal spending would only exacerbate the depression (\textit{Ibid.}, 10321). J.M. Clark responded cautiously, whilst Edwin Gay, Irving Fisher, and Alvin Hansen argued against the program. At this stage, and even as late as 1936, Hansen was unsympathetic to a "Keynesian" approach, despite the fact that today, he is remembered as the leading American apostle of the doctrines espoused in Keynes' \textit{General Theory} (Barber 1985, 163; 1987, 191). In Fisher's case, he remained convinced that the Depression had been, and the recovery would be, a monetary phenomenon (Allen 1977, 563).

\textsuperscript{13} These included Morris Cooke, Howard Coonley, Hugo Diemer, Horace Drury, Morris Leeds, Ordway Tead, Sanford Thompson (at that time president of the Society), and Joseph Willits from the Wharton School.
of stimulating general business and injecting a necessary larger fund of purchasing power into the hands of more consumers” (Wagner Letter 1932, 10331).

Turning to the response of organised business to the Depression, Frederick in his contemporaneous account of pre-New Deal economic planning proposals noted that

(n)ever before has America ‘put on its thinking cap’ to such an extent in endeavouring to think its way out of economic dislocation. In particular, never have business men themselves been so active in formulating plans and recognizing the challenge to our economic system to justify itself as able to progress and meet the test (Frederick 1932, 293).

This was a new development, according to Frederick, in the sense that

(e)conomic planning suggestions on a broad scale have heretofore been avoided by prominent industrialists, so strongly have they been imbued with the tenets of individualism, and so habitual their belief that only private enterprise, acting singly, could or should use the economic planning principle (Ibid., 313).

As suggested, initially self-regulation was championed by Dennison as it was by other corporate liberals: they believed that utilising the cooperative network fostered by the

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14 Tead supplemented his reply with a Taylor Society memorandum entitled ‘Action Toward Business Recovery’ for Wagner’s “approval or constructive criticism”. The memorandum—authored by Sanford Thompson and Harlow Person, president and director of the Society respectively—held that a “primary cause of the Depression has been the fact that purchasing power has not kept pace with production”. Drawing on the analogy of war planning to stimulate production, they prescribed an extensive reform of government and banking policy as a means to increase consumer purchasing power and stimulate buying. In line with Wagner and contrary to Hoover, they argued for an increase in public outlays “to employ more men and put money into creation. Instead of curtailing expenditures for public improvements and throwing more and more men out of employment, the opposite policy should be adopted” (Wagner Letter 1932, 10331). This nexus of opinion regarding the conduct of economic affairs formed the backbone of a proto-Keynesian group of thinkers who would ultimately play a major role in the shaping of the so-called ‘Second New Deal’.

15 Mention might also be made of roundtable discussions held at the University of Chicago, under the auspices of the Harris Foundation, on “Unemployment as a World Problem”. Keynes attended and the discussion centred on the efficacy of wage cut as a remedy for unemployment. Davis (1971, 115) reported that “this 1931 discussion of wage rates and unemployment is historically significant evidence that the leading economists in the United States were unconvinced that wage cutting...would augment employment, production, income, or any other relevant aggregate. The 1931 confrontation between Keynes and this group of economists—often—indiscriminately designated as ‘classical’ – far from revealing a polarization of views, testifies more nearly to a consensus”. Similarly, in December 1932 the Columbia Commission of Economists issued a report which concluded that the central problem behind the Depression was “that of the adequacy of our present economic order to adjust the economic factors of effective demand or purchasing power to the technological factors of the present and potential productive capacity of production” (Columbia Commission 1934, 3). The Commission also concluded that “the doctrine of economic laissez-faire assumes a situation of individualist competition and of free price flexibility which...does not now exist. We regard economic planning as a rational and in fact a necessary expedient under the conditions of our society (Ibid., 73).
Hooverian 'New Era' and decentralised or microeconomic planning would ensure that all would be well.

The most noteworthy exponent of this view was Gerard Swope, President of General Electric, who like Dennison had made pioneering efforts in the 1920s to institute employee welfare plans, company unions, and industrial self-regulation under federal auspices (McQuaid 1975; McQuaid 1977a). Enunciated in September 1931 in an address before the National Electrical Manufacturers Association conference, Swope asserted that

industry exists basically for serving the needs of the people, and therefore production and consumption must be coordinated. Consumption is by the mass of the population, not the few, and the great mass of the population is made up of wage earners and their dependants. That they may be able to buy and satisfy their needs, they must have not only adequate incomes, but must be sufficiently assured of the future to feel that they are safe in spending their money. ...Coordination of production is impossible under our present laws, and it is vain to think of their amendment or repeal unless the public is assured of the constructive nature of the steps industry will take, and that the interests of the public will be adequately safeguarded (Swope cited in Beard 1932, 161).

Accordingly, Swope called for the cartelisation of the US economy via the formation of a trade associations network. Antitrust laws would have to be relaxed to allow companies with 50 or more employees to form these associations for each industry. Under loose government supervision, these associations were to be free to stabilise the economy through price fixing and apportioning production via quotas. Provisions were also made for workers' compensation, pensions, and unemployment and life insurance. (McQuaid 1975, 171-172; McQuaid 1977b, 417-418; Frederick 1932, 315-327). Swope initially intimated his ideas personally to Hoover, but because the latter considered the program fascistic, monopolistic, and anti-capitalist in tendency, Swope took his ideas to the wider public.

In October 1931, Swope appeared before the La Follette Committee Hearings considering a bill for the establishment of a National Economic Council. Swope's ideas received a warmer reception here, notably from US Chamber of Commerce head, Henry Harriman, who held almost identical ideas to Swope vis a vis self-regulation and
national planning. Harriman's appearance at the LaFollette hearings and his philosophical congruence with Swope are important to stress here in the context of Dennison's unfolding economic thought. Harriman's views were representative of the US Chamber of Commerce's Committee on Continuity of Business and Employment, of which he was chairman and Henry Dennison was a member. This committee similarly recommended cartelisation and price fixing, and that trade associations be given legal authority to enforce their self-regulatory decisions (McQuaid 1975, 182). Given Dennison was a member of this Committee and signatory of its report, it might be said that these initiatives were reflective of his views.

Formed by a Chamber of Commerce referendum in May 1931, the Committee on Continuity of Business and Employment submitted its report in December the same year. The report dealt with causes of the depression concluding that the profit motive "induced speculation and overproduction. This, in turn, had brought about a surplus of goods, a corresponding lowering of prices, and finally the disruption of business, with resultant underconsumption" (LaFollette Hearings 1931, 183). The report also considered "Long-time Measures" necessary to "establish a better balance between production and consumption". In his testimony, which reproduced the Committee's report verbatim, Harriman encapsulated the longstanding 'New Capitalist' views of the likes of Dennison and Swope in emphasising "the duty which business owes to the community to help in bringing about normal and stable conditions" and their belief that "(t)he present economic system is...on trial". He emphasised the changed economic conditions of the last fifty years, and questioned the efficacy of laissez faire in the market clearing process:

It is the view of the committee that our present antitrust laws were largely adopted when our economic conditions were entirely different than they are to-day....We grew up on a strongly individualistic basis. Our whole thought was that free and open competition would settle all the problems of production and consumption. We find that to-day we have an overproductive capacity in many lines. We find that there is no balance between the production at a given time and the buying capacity of the country at that time. The result is a heart-breaking competition which results in business being conducted in very many lines at a loss, or at absolutely no profit. That results in the cutting of wages, in the discharge of people from
work, and in general economic disorganization (LaFollette Hearings 1931, 167).

And so:

Only through a proper coordination of production and consumption can a sane, orderly, and progressive economic life be developed. A freedom of action which might have been justified in the relatively simple life of the last century cannot be tolerated today... We have left the period of extreme individualism and are now living in a period of national economy which must be recognized as the controlling factor. (LaFollette Hearings 1931, 185).

The means of achieving "workable" competition, Harriman and the Committee maintained, was through a "reasonable modification" of the antitrust laws to allow cartelisation. They concluded by expressing support for an advisory (as opposed to executive) National Economic Council composed of five members, served by an advisory board comprising leaders of trade associations. The Committee explicitly recognised that "(p)laning by individual concerns, and even by whole industries, may not suffice to remedy such a severe lack of adjustment between production and consumption" and that recurrent dislocations of "economic machinery" are a "natural consequence of individual action, when no central coordinating influence is exerted over industry as a whole" (LaFollette Hearings 1931, 191). They concluded that

it is not unreasonable to suppose that our maladjustments could be cleared by a planning board that had power to assemble the facts and then direct our people and resources into the various activities in which they would be most useful...in some such way as the War Industries Board did (Ibid., 191-192).

Overall, the LaFollette Hearings revealed that Swope, Harriman, and by association, Dennison, all proffered a corporatist approach to guide New Deal policies.

Against this tide of opinion at the La Follette Hearings, however, was a "Keynesian" group composed of LaFollette himself, Sidney Hillman, Frances Perkins, and economists J.M. Clark, George Soule, Leo Wolman, and Lewis Lorwin. The essence of their position at these Hearings was that the Depression was primarily due to

16 It also included members of the Taylor Society like Harlow Person, Ralph Flanders, Mary Van Kleeck, Henry Kendall, and Wallace Donham. That members and associates of the Taylor Society adumbrated a distinctly 'Keynesian' view with regards to the causes and cure of the Depression has been the object of study elsewhere (Bruce 1992; Pabon 1992, 177-195).
a maldistribution of national income. The individual actions of self-regulated business had not and would not succeed in better distributing the nation's wealth or restoring purchasing power, they asserted, and hence, they urged a more active role for government in this regard. This view is best encapsulated by the testimony of engineer (and later co-author with Dennison) Ralph Flanders, who emphatically rejected the notion that "production finances the purchases of goods produced". He insisted that the Depression was

due to the fact that purchasing power does not equal the productive capacity, due mainly to the fact that the results of industry, manufacture, transportation, and so forth, on the whole have gone largely into the hands of those who invest rather than spend, and too little into the hands of those who ordinarily would spend rather than invest (LaFollette Hearings 1931, 240).

The way out of this crisis of underconsumption, he concluded, was to 'increase purchasing power of those on lower salaries—workers—by 'reinjecting' savings into the purchasing stream by "capital investment in the form of new manufacturing buildings, new machinery, bridges, highways, dwelling houses, office buildings, anything that goes under the general category of capital goods" (Ibid., 239). He concluded that "a much expanded public works program supported by taxation...is the most hopeful opening we have for maintaining the general prosperity for the decades to come" (Ibid., 245).

The testimonies of Sidney Hillman, Mary Van Kleeck, and those of George Soule and Lewis Lorwin were also critical of the corporatist plans for their "refusal...to recognize the validity of the labor organizations of the country as part of the new economic agencies which can be turned to constructive purposes" (Ibid., 340). Related to this was the failure by these same representatives of organised industry to share the 'spoils' of productivity improvements with workers in the form of higher wages. In other words, it was the belief of Hillman et al that there was a need for trade associations to cooperate with "labour associations" or national trade unions to create "an industrial council for industry"—in concert with the state—to boost the collective bargaining
power of unions in the development of a political economy of mass consumption (Pabon 1992, 191; Fraser 1991).^17

The clash of political-economic strategies jostling for influence over the New Deal stemmed from the respective groups' conceptions of what had actually caused the Depression: the corporatists believed the cause lay with the overproduction induced by cutthroat competition; the 'Keynesians' believed it stemmed from underconsumption and lack of purchasing power amongst the lower income groups (Pabon 1992, 178-179). It will be demonstrated below that, despite the fact that Dennison was publicly allied with the corporatist program, his thinking would become more aligned to the 'Keynesian' or underconsumptionist group, save perhaps for the status of independent or industrial unions as sole bargaining agents.^18

**Dennison's 'Proto-Keynesian' Economic Thought during the Depression**

Throughout 1930 Dennison devoted little space either to the cause of the Depression or recovery measures. However, by early 1931 it was clear that his company's welfare programs were in an unsatisfactory state: unemployment insurance funds were exhausted, company profits were almost non-existent, and it appeared that wages, salaries and employment rolls might have to be cut. The latter was difficult for Dennison to accept personally and he reputedly reduced his own salary in order to minimise wage cuts amongst his workers (Galbraith 1996). It appeared that the liberal capitalist vision of a self regulatory "Government of Business" held by Dennison and others was clearly not up to the task of ironing out the capitalist business cycle. The year 1931, therefore, saw Dennison take an active role in the emerging debate over economic planning at a national level (McQuaid 1975, 168-170; McQuaid 1977, 89; Lee (1992, 28) has argued that the initial impetus for the Hearings actually emanated from a 'Keynesian' network established in early 1931 composed of political figures like LaFollette, Wagner, Sidney Hillman, Frances Perkins, and leading members of the Taylor Society like Harlow Person and Morris Cooke. Other members of this network included institutionalist economists J.M. Clark and Isador Lubin. According to Pabon (1992, 187), the aim of the latter group was to "neutralise the influence of the corporatist planning scheme and provide a forum for the Keynesian approach". ^18

^17 Lee (1992, 28) has argued that the initial impetus for the Hearings actually emanated from a 'Keynesian' network established in early 1931 composed of political figures like LaFollette, Wagner, Sidney Hillman, Frances Perkins, and leading members of the Taylor Society like Harlow Person and Morris Cooke. Other members of this network included institutionalist economists J.M. Clark and Isador Lubin. According to Pabon (1992, 187), the aim of the latter group was to "neutralise the influence of the corporatist planning scheme and provide a forum for the Keynesian approach".

^18 As seen in Chapter Three, this would remain a thorn in Dennison's side at least until the mid 1930s and the passage of the Wagner Act.
Reagan 1982, 178). He was publicly aligned to LaFollette, Swope, and Harriman in their bid to establish a national economic council. In this way, he joined the increasing number of business leaders, via their trade associations, pushing for a revision of antitrust laws to allow a degree of cooperation over prices and production and sanctioned by the federal government (Metcalf 1972, 346).

In terms of his own thought, in January 1931, Dennison joined institutionalist economist Walton H. Hamilton and former war planning colleague (and AT&T statistician) Malcolm C. Rorty, in writing a pamphlet entitled The World-Wide Depression: Ways Out, published under the auspices of the Foreign Policy Association. In his chapter, Hamilton asserted that the Depression was caused by a mismatch of the capacity of industry with the effective demand within society and that the problem was primarily one of organisation. By this, he meant the industrial system had changed rapidly since the time of the American Revolution. Yet despite these changes, economic problems were still viewed through the blinkers of "individual thought which we have borrowed from England". For instance, the corporation, one of the chief vehicles for change, was "a very ingenious device which enables a cooperative business enterprise to carry on under the pretense that it is an individual engaged in business" (Hamilton 1931, 4). He implored that individualism be dispensed with as a guiding socio-economic philosophy:

The plain truth is that our society is a great collectivism. If you look at our industrial system from the point of view of technology, it is evident that it has become socialized. ...Engineering, or the art of technology has advanced, but the art of economics has lagged. We have not consciously and deliberately tried to set our economic house in order. ...We need, then, to recognize the necessity for control... (Ibid., 6).

19 Hamilton had worked with Robert Hoxie at the University of Chicago in the mid 1900s, served on the War Labor Policies Board, and was at the Brookings Institute of Economics throughout the 1920s until settling into a professorship at the Yale Law School in 1928. It was for these reasons coupled with his pragmatic outlook, "viewing society as an ever-changing organic pattern of closely interrelated and interdependent institutions amenable to intelligent control by its members", that Dorfman (1959, 438) labelled Hamilton an institutionalist. Hamilton also wrote one of the first analyses of the tenets of institutional economics in "The Institutional Approach to Economic Theory" in the American Economic Review in 1919 – see Hamilton (1919).
Dennison's chapter focused on depression remedies; more specifically, measures tried and tested at Dennison Manufacturing and discussed earlier in the thesis. His focus was still decidedly microeconomic, insisting that "the accumulated effect of small steps taken by each of the tens of thousands of companies in this country can be of very great importance" (Dennison 1931, 9). At this stage in his thinking, he still saw no active role for the state – the state was still a 'referee' rather than a 'player'. He gave primacy to the need for managers to adopt unemployment insurance in their companies rather than having the state legislate in this direction. As he said:

I still more earnestly wish that employers...would act so promptly and vigorously in instituting for themselves measures of unemployment relief and prevention that states might safely and wisely wait on their experiments (Dennison 1931, 12).

Focusing on unemployment reserve funds, he insisted their most important function was that they "held the purchasing power in our community up somewhat higher than it would be otherwise have been" (Ibid., 10). On this note he was a firm believer in maintaining established real wage levels. This was because

the predominant need of settled and industrialized countries is not for capital funds, not for more producing equipment, but for a greater effective demand for the goods produced – for consumer goods. Consuming demand increases little when the incomes of the wealthy increase, as compared with its increase when real wages advance, whether from decreased retail prices or increased money wages; and it is consuming demand that which we need in these days when few new lands are open for settlement and producing capacity is high (Ibid., 15; emphasis added).

Two important points can be gleaned from his analysis. First, Dennison was clearly aware that the incomes of lower income groups, being the biggest spenders, had to be maintained if "effective demand" was to be maintained; this was to influence his later thinking on tax reform discussed in the next chapter. Second, and related to this, Dennison had long realised (see Chapter Four) that greater effort had to be made to ensure that the output achieved by more efficient production could actually be sold to consumers.
Dennison concluded his discussion with an indication of the direction he was heading in terms of his thought on the role of the state in economic matters. At the micro level, he urged more cooperation and joint action between business leaders; whilst at a macro level he left the door open for a more positive role for the state, stating that "(w)hen time has softened prejudice we shall all come to realize that five-year planning is essential for all sorts of governments if they are to hold their own against the multiplying complexities of the modern economic order" (Ibid., 16). As he said elsewhere in this period, "it is distinctly possible that the complexities and the pervasiveness of economics will force every sovereign government into economic participation, economic influence, or sometimes into economic control" (Dennison 1932, 134-135). Thus, as McQuaid as observed of Dennison:

By 1932, it was clear to him that...voluntary efforts amongst businessmen had not succeeded in covering more than a tiny fraction of necessary procedures. In future, capitalists must set up planning organizations which included the federal government as a major referee and actor (Dennison 1977, 89).

Dennison addressed these points more forcefully in a paper he published in the American Political Science Review in April 1932 and in so doing, not only revealed his doubts about laissez-faire but also revealed he was beginning to question the efficacy of corporate self-regulation. Referring to the business self-government response to the Depression which he had endorsed—the Swope Plan of 1931 and the Harriman (Chamber of Commerce) Plan of 1932—Dennison expressed doubt concerning their feasibility. "When such propositions are examined in detail", he asserted, "problems of enforcement and of relative sovereignty arise which are insoluble" (Dennison 1932, 243). Accordingly, he urged that the greatest need at that time and for the next half-century was "progress in the art of government". As he argued further:

The present slogans of the business world which protest against any participation of government in economic affairs have many followers; but it is distinctly possible that the complexity and the pervasiveness of economics will force every sovereign government into economic participation, economic influence, even economic control (Ibid., 242-243).
This shift in Dennison's view as regards voluntarism and state interventionism and his evolving acceptance of a proto-Keynesian and underconsumptionist explanation for the Depression, is evident in an unpublished paper he presented in 1932 before the Boston Chapter of the National Cost Accountants Association at their meeting on May 11, 1932. Entitled 'The Cycle: 1927-1932', the paper began with an explanation of the cycle that possessed more of a macroeconomic focus than was usual for Dennison. An increase in almost any part of economic activity, he explained, resulted in freer buying, larger employment, greater borrowing and heavier investment - as if this activity were "reaching" for the maximum development possible in a community. Yet the combination of competitive rivalry and imperfect knowledge, resulted in this "reaching" being transformed into "over-reaching", which even under healthy conditions, led to a slowing up and holding back – as if in search of a normal rate of progress.

The time lag between cause and effect in economic activity slows up the adjustment of the normal rate and considerably exaggerates the swings and underswings, causing alternating periods of hyper-normal and sub-normal activity (Dennison 1932a, 1).

Further in the address, he considered remedies for the depression, pushing a decidedly proto-Keynesian line. For instance, he said that

\[(w)e must recognize and make more clearly and widely known the modern need for consumption funds as against investment funds and, hence, the advantages of larger proportions of the national income turning into the channels through which they are most likely to flow smoothly and with maximum regularity into consumer spending. This is the old over-saving theory in a new aspect, and it gives to the high wage doctrine its fundamental, cool, long-range economic validity (Ibid., 14-15; emphasis added).\]

Dennison advocated a more egalitarian distribution of income favouring lower income-higher spending groups and for the maintenance of existing real wage levels – elements of which were to later impact on his thoughts concerning tax reform. Also, after reiterating the need also for monetary measures – strengthening the structure of deposit banking and the guaranteeing of deposit accounts – Dennison, again, called into question the fundamental philosophical tenets of competitive individualism:
It is time, too, for a re-appraisal of the good and evil elements of unrestricted competition. Such an elemental analysis will give us factual material upon which to invent ways by which the good in competition can be held and the evil lessened. We have so far been satisfied with the mere slogan that competition is the life of trade; but this, like most slogans, says little or nothing (Ibid., 15-16).

Dennison's New Deal Economic Thought

In the three months following Franklin D. Roosevelt’s inauguration—the so-called 'Hundred Days'—the US socioeconomic system was subjected to an unprecedented presidential barrage of ideas and programs, perhaps the most important of which were the National Industrial Recovery Acts (including the National Recovery Administration or NRA instituting both a system of industrial self-government and public works, and the Agricultural Adjustment Act or AAA) (Schlesinger 1958, 20-21). The NIRA sought to institute centralised management of industry and agriculture and determined the shape of what has come to be known as the 'First' New Deal. They reflected less a predetermined policy than Roosevelt's firm belief in the need for intervention to correct the apparent failures of the free market system and the consequent need for national economic coordination or planning. They signalled the creation of new institutions, public and private, to do what competition had once done (or was supposed to have done) in the way of balancing the economy—-institutions that altered the existing pattern of individual economic decision-making, especially regarding investment, production, and price (Ibid., 179).

The 'First' New Deal focused on sectoral economic planning and structural-sectoral reforms. During 1933-1935, Roosevelt and his policy advisers—the so-called Brains Trust—were confident that the economy could be manipulated through two planning agencies: one in industry (NRA) and the other in agriculture (AAA). The Brains Trust, Roosevelt's original group of expert advisers for his presidential campaign, were his personal legal counsel Samuel Rosenman, and three professors from Columbia University: political scientist Raymond Moley, economist Rexford
Tugwell,20 and lawyer-economist Adolf Berle—all of whom were institutionalists and possessed a conviction that the federal government had to play a more positive role in economic life (Fusfeld 1970, 210; Barber 1996, 5). As Rosen has noted,

(b)y disparate routes—Moley through Beard and Van Hise, Tugwell through Patten and Veblen, Berle thanks to the Harvard Law School and later Ripley—the three Columbia University academicians fastened on institutionalism and sought its application in the economic crisis of 1932 (Rosen 1977, 206; emphasis added).

These advisers believed in the efficacy of some form of government economic planning as a solution in the current crisis.

The Brains Trust urged upon Roosevelt a rejection of the sort of thinking that had dominated the nation's economic theology since the Civil War, particularly the notion that our economic system need be dominated by immutable laws. ...This was the distinguishing feature of the outlook of Roosevelt and the Brains Trust as opposed to their predecessors in government. Convinced that the nation's economic system 'is a human thing built by human beings', they believed that 'it can be controlled by human beings and for the general good' (Ibid., 147-148).

Henry Dennison played a vital role in the NRA and its supporting cast of quasi-government planning agencies. He was a member of the Business Advisory and Planning Council (BAPC); from here he was 'drafted' into the Industrial Advisory Board (IAB) and into the shortlived National Labor Board (later the National Labor Relations Board) discussed in Chapter Three. He also served on the National Resources Planning Board (in its various guises) from 1935 until its demise in 1943.21 This experience in the 'corridors of power' had a profound effect on Dennison's thought concerning

20 It was Tugwell that brought scientific management and that movement's focal idea of planning to the attention of Roosevelt.
21 The original members of the National Planning Board, as it was initially known, were FDR's uncle Frederick Delano (chairman), political scientist (and friend of Nobel laureate, Herbert Simon) Charles E. Merriam, and Wesley Mitchell. Upon Mitchell's resignation in September 1935, Delano and Merriam chose Dennison as Mitchell's replacement. In the context of Dennison's years with the Board—details of which are sketchy—and the potential effect of this membership on his economic thought, it is important to note, as have Gruchy (1939a, 63) and Ellis Hawley (1966, 175-176), that it was the ideas of Veblen, Patten, Commons, Werner Sombart and Herbert Croly rather than Karl Marx, that infused the work of economic and social planners on the NRPB: Mitchell, J.M. Clark, Gardiner Means, Mordecai Ezekial, and later J.K. Galbraith, shared with Dennison, a desire to restore and improve the US economy and indeed society at large, with institutional intervention and planning, heretofore considered heretical by the bulk of economists.
economic matters especially as regards the place and function of planning and the state in the US economy.

From the beginning, the NRA, established as an administrative agency of the National Industrial Recovery Act (NIRA) signed in June 1933, was primarily a piece of enabling legislation that sought to institute a partial, sectoral economic planning program. Reagan (1982, 187) has noted that the NIRA "represented the major piece of national legislation akin to national planning in U.S. history". In its statement of purposes in Title I, Section 1 it aimed

to provide for the general welfare by promoting the organization of industry for the purposes of co-operative action amongst trade groups to eliminate unfair competitive practices, ...to promote the fullest possible utilization of the present productive capacity of industries, ...to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labor, and otherwise to rehabilitate industry and to conserve natural resources (cited in Gross 1974, 295).

Rhetoric aside and with the exception perhaps of Section 7a, this legislation was essentially what the corporatist, business self-regulation group personified by Swope and Harriman had been advocating since 1931: a compulsory-cooperative arrangement for dampening 'destructive' competition amongst functional economic interest groups in the economy. The "Industrial Recovery" dimension of the NRA\(^{22}\) sought to bring industries into a legalised system of planned production and administered prices – that is, cartelisation. Each industry, via their trade associations would draw up "codes of fair competition" covering wages, working conditions, prices, and production levels that were to be indicative of business practice in all enterprises in the industry. Producers were encouraged to make price-fixing agreements, with their goods identified to the public via the Blue Eagle symbol. These agreements were essentially undertakings by

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\(^{22}\) The second part of the recovery program set aside $3.3 billion for "Public Works and Construction Projects" to be administered by a newly created Public Works Administration (PWA). It was designed to stimulate recovery via the spending of public loan funds upon "useful" public works and so, to provide additional employment in the fields of construction and capital goods where unemployment was marked (Homan et al. 1935, 15).
producers not to lower prices; the idea here being to stop companies from undercutting their competitors which created further unemployment and reduced purchasing power. In return for this exemption from antitrust laws, employers were required, as part of the codes, to recognise the rights of workers in terms of minimum wages, maximum hours, their free choice of representatives, and collective bargaining under Section 7a of the Act (Homan et al 1934, 14-24). In other words, employers who became parties to code authority were required to bargain collectively with representatives of the workers' choosing.

One of the most important, but relatively neglected, supporting institutions of the NRA was the Business Advisory and Planning Council (later the term 'planning' was dropped) of the Department of Commerce. Robert Collins has observed that

scholars have slighted the significant effort by elements of the business community throughout the period 1933-1942 to arrange a détente with the New Deal, to adjust to the realities of an expanded, continuous government role in the management of the economy, and especially to make peace with that Keynesian revolution that after 1937 became the main thrust of New Deal economic policy (Collins 1978, 370).

An outgrowth of the trade association initiatives of Hoover and the Swope and Harriman Plans, the Business Advisory Council (BAC) encompassed not only industrial self-government but active cooperation between government and business. It combined political pragmatism with an awareness of the failings of laissez-faire capitalism (Collins 1981, 56). The Council was modelled closely upon Wilson's post-WWI National Industrial Conferences, Commerce secretary Daniel Roper hoping it would form the basis of an economic parliament similar to that espoused earlier by Swope and Harriman. It is no surprise, therefore, that among the earliest members of the BAPC was Henry S. Dennison, that Swope became the organisation's first president, and that Harriman was an influential member. The result was an unprecedented effort to enlist the expertise of corporate liberals within the peacetime federal government (McQuaid
1979, 684-685). 23 Collins (1981, 56-57) has argued that the BAPC "gave business leaders important experience in working regularly with government, helped to develop a new appreciation of Keynesian economics amongst businessmen, and influenced the course of public policy". It also was the embryonic form of the important and prestigious Committee for Economic Development (Collins 1981, 57).

In its initial years of operation, the BAC focused on the implementation of the NIRA. As Reagan (1982, 187) noted, "Dennison's appointment to the BAC put him at the center of this experiment in national economic planning". Like other members, Dennison served on various committees dealing with both the wider implications of the NRA and the more practical advisory function of drawing up and presenting the industrial codes earlier mentioned. This process of code negotiation involved not only the code committees, but members of the Industrial, Labor, and Consumer Advisory Boards. Given his background, Dennison worked as a member of the code committee on such industries as tag manufacturing, paper box producers, and sealing wax firms wherein he advocated "fair competition" via codes of production, pricing, and wages. The actual process of negotiation proved to be generally chaotic and common ground was established in an ad-hoc, informal manner (Homan et al 1935, 137-140; Barber 1996, 38-39).

Early in November 1933, Dennison also became chairman of a committee in the BAC formed to study Swope's earlier proposals for a 'National Chamber of Commerce and Industry'. Swope argued that trade associations assembled under the wing of the NRA should be further centralised into a National Chamber or economic parliament. He believed that in so doing, many of the essentials of the NRA could be made permanent by speaking authoritatively to public bodies, by being held accountable to them in expediting government-business cooperation, and by assisting in the drafting of national labour, transport, and banking legislation. In turn, the Chamber would elect members to

23 Other important members included Dennison's old partner from the AMA and later Undersecretary of Commerce, Ernest G. Draper; his friends Lincoln Filene, Ralph Flanders, and Morris Leeds; fellow Taylorist Henry Kendall; and 'big' employers like Pierre DuPont, Walter C. Teagle (Standard Oil), Marion Folsom (Eastman Kodak), Walter Gifford (AT&T), John Jacob Raskob, Clay Williams (R.J. Reynolds Tobacco), and Alfred P. Sloan (Roper 1941, 404-407; McQuaid 1979, 685).
a National Economic Council (Swope 1934; Reagan 1982, 188). In this way, the BAC remained a bastion for those who envisioned a business commonwealth where national planning and industry regulation was conducted with government cooperation but without government control (Collins 1981, 62). To the majority of BAC members, though they held the old deity of laissez-faire in low esteem, few if any were prepared to accept a more positive role for government and/or organised labour.

Dennison was a noteworthy exception in this regard. While he partially shared his business peers’ belief in self-regulation, by 1935 he had come to accept the middle-road of compromise and envisioned a more democratic vision of corporatism that included a place for organised labour. A source of inspiration for Dennison’s evolving attitudes on the issue of organised labour in the planning process was his membership of the Industrial Advisory Board (and the National Labor Board, also explored in Chapter Three). At the first meeting of the BAC in June 1933, NRA chief administrator Hugh Johnson requested the BAC to appoint members to a new Industrial Advisory Board (IAB) to represent employers during discussions of NRA policies and during actual implementation in industrial code hearings. Johnson realised that a great deal of industrial experience was required to meet the NRA’s task of price, wage and employment stability. Ideally, he hoped to install a three-pronged approach to code negotiations by assembling this board, along with a Labor Advisory Board (LAB) and a Consumer Advisory Board (CAB). In assembling the IAB, "(h)is attentions were quickly drawn", McQuaid (1982, 189) has noted, "to employers who had, like himself, served in the War Industries Board planning councils". Amongst such individuals was Henry Dennison, who was appointed chairman of the IAB in January, 1934, and who served in that capacity until April, the same year. The IAB paralleled the BAC in its functions, emphasising general NRA policy discussion and actual code implementation. As McQuaid has noted:

The NRA’s vague mandate led IAB members to concentrate their efforts in two areas: first, they advised top NRA administrators on overall policy; second, they assisted trade associations in drawing up and presenting code proposals at the public and private hearings which were key to the NRA’s ratification process (McQuaid 1979, 687).
Dennison’s evolving thought on the status of organised labour in this ‘experiment’ and his impressions of his experience in, and the future of, the NRA were captured by two unpublished papers he wrote in 1934.

One of these manuscripts, written for the annual general meeting of the US Chamber of Commerce and read before the American Trade Association Executives in May 1934, was entitled ‘Business Organizations under the Recovery Program’. Dennison here began by stating that the future of the NRA was entirely in the hands of business leaders and that

(t)he whole essence of this proposition (the NRA) has been from the beginning that business men through their organization and trade associations should have an opportunity to govern themselves, and governing means controlling and governing one’s self means self-control (Dennison 1934b, 1).

For years, he noted further, business management had been considered a profession, yet this meant that managers had "glorified working blindfold(ed)" and "worshipped secretiveness"—which ran counter to the creed of professionalism, Dennison highlighting that "(n)o profession worthy of the name smothers its information" (Ibid., 3). Yet under the NRA, and furthermore, with its future at stake, Dennison urged his colleagues to support the idea of self-governance as it represented “the first chance that American business has ever had to become a civilized occupation, to lift itself out of what was actually—forgetting about all the flattery we love to putter all over ourselves—a dog-eat-dog barbarism” (Ibid.).

Though his general tone throughout the paper was of total support for the continuance of this experiment in business self-government under state auspices—"give and take"—Dennison was deeply concerned that self-governed business planning would collapse if labour and consumers were not allowed to have some input and feared that 

"(i)f this thing breaks, it is more than possible that our present form of government and civilization will break with it" (Ibid., 2). Accordingly, he noted that while many business leaders had mastered the "take" element, few had mastered the "give"—this
was indicative of what he termed "glorified individualism". From this time on, therefore, he urged his colleagues

to consider the situation of labor; you have to consider the situation of competitors; you have to consider the good of your trade as a whole, not simply of your own company, and you have to consider the good of the trade with relation to the good of all the rest of the trades, which means of the total community (Ibid.).

This is an important development in the evolution of his thought. Revealing his support for the role of organised labour in this corporatist governance, Dennison chided his colleagues for their apparent disillusionment with the NRA because of its concessions to labour. As discussed in Chapter Three, the NRA merely formalised existing rights and duties vis a vis the status of labour, both individual and collective. Just as business has many opportunities under self control and was trying to get the best it could out of the situation, Dennison emphasised that the same also applied to labour:

The situation has got to be worked out by both. The structure and set-up here is as nearly reasonable as a bunch of humans could be expected to invent, so that there will be a reasonable balance between them. ...Men can't pass on this enormous opportunity that we have in front of us simply because it offers labor a chance to do thus and so... (Ibid., 6).

Tackling the issue of industrial unionism, Dennison was quick to point out that the bulk of "labor organization of the outside sort" was to blame on the incompetence of business leaders in the realm of labour management and policy. Contrary to the common belief that if anybody could reach the position of foremen or even president of a company that they possessed a "a God-given gift of handling men", Dennison asserted that in his personal judgement, after "holler(ing) about the labor problem (for) some twenty-five years", as little as one in seventy-five or even one in a hundred and seventy-five men had any gift for "handling men" or about "handling a crowd of human beings". In this present culture of self regulation, he concluded, business leaders must learn more about "the tactics and psychology" and other techniques for handling workers, or else suffer under the organising strides of "outside" unions (Ibid.).
In the second of these unpublished manuscripts, written for the BAPC sometime in 1934, entitled 'The Future of the NRA: General Analysis', Dennison stated that

\[(w)e\ accept as permanent the general objectives of NRA - to enforce minimum standards for the protection of labor and to encourage such organization of commerce and industry as will allow these standards to be upheld, (as) will reduce destructive competition and enlarge the opportunity for intelligent, constructive competition (Dennison 1934, 1).

To meet such objectives, he maintained, business management would have to organise into trade associations to curtail cutthroat competition, but also that it would be essential that various forms of labour and consumer organisation be included to represent their interests in the planning process. And further, that some form of "supervisory government organisation" enforce this entire process. Dennison's inclusion of labour and consumer groups in the planning process was indicative of a decisive evolution in his thinking and reflected his coming embrace of a more "Keynesian" line as regards the need to address the apparent maldistribution of national income.

Trade associations were essential, Dennison argued further, "if the unbridled competition bearable in pioneering days...be directed into channels where it can do less harm and more good to society as a whole", and also as they were "highly desirable in the enforcement of labor standards" (Ibid., 2). However, he also asserted that government supervision was essential to this process because any form of voluntary organisation "makes more and more profitable the holding out of a few concerns". In other words, without a public marshal, the incentives to 'chisel' or undercut one's 'partners' in an association, were always present (Ibid., 3).

Apart from kindred spirits in the Taylor Society and the 'Keynesian' camp, Dennison's siding with organised labour, consumers and state enforcement made him a 'maverick' in the business community. This sentiment was not new. For most of his career Dennison was considered by the business community at large as a 'crank', a communist sympathiser, and as 'spoiling' the working classes because they had a stake in his 'property' (Galbraith 1981, 62; J.T. Dennison 1999). This belief was reinforced from 1935 when the business community all but deserted Roosevelt because of his
concessions to labour and consumers. With the genesis of the 'Second' New Deal (circa 1935-1937), progressive liberals such as Dennison and his friend and fellow Boston businessman, Edward Filene, became the object of open hostility within the business community because of their continued support for Roosevelt. Being Taylorists, they sustained a belief that the ultimate success of a legitimately 'scientific' management of an economy, just as that of a firm, necessitated a role for labour and the consumer not just the sectional interests of business (Nyland 1998). So strongly did Filene believe this, for instance, he resigned from the US Chamber of Commerce—which he had helped found—because of its conservative resistance to more democratic macroeconomic management. For his own part, Dennison faced a boycott of his products by a large part of his wholesale customers because of his alleged socialist tendencies (Galbraith 1981, 62; J.T. Dennison 1999).

Overall, during his time with the IAB and with the BAC, "Dennison expanded his notions of national planning, sought the middle way between associationalism and government compulsion, and revived his welfare capitalist views on labor policy" (Reagan 1982, 189-190). During this tenure he further collected his thoughts on the NRA in two unpublished papers: one entitled 'National Planning: Written for the Industrial Advisory Board' and the other, 'Suggestions for a Popular Presentation of Planning'. Herein, Dennison enveloped all his previous thoughts on planning which had been evolving through his experience as a business manager, government adviser, and New Dealer. These thoughts, his last explicitly on economic planning, again, reveal his institutionalist 'bent and hint at his evolving proto-Keynesian approach to recovery.

He began the first of these papers, 'National Planning', by reiterating the evolutionary nature of planning and stated that as new knowledge develops, it is necessary to revise and perfect plans. His broad focus was on areas where planning may be useful for recovery and future stability: public works, taxation, agriculture, housing, natural resources, business, and income distribution. His thoughts on the latter are of special interest for the purpose of the present inquiry. He stated that any planning for the organisation of business or credit must be informed of the national distribution of
income. For, as he had maintained throughout his career, notably in his correspondence with Wesley Mitchell discussed in Chapter Four, there is a certain relation between the amount of the nation's income which is spent on consumption goods and that amount saved and invested in capital goods, which cannot be departed from without economic harm. As he continued:

When too little in proportion is saved there is a slowing down of material progress. When too large a proportion is invested and too little spent there arises the phenomena of over-equipment, of relative under-consumption, unemployment and depression. All available figures indicate that the percentages of individual incomes which are turned into the investment fund increase rapidly as the amount of the income increases (Dennison 1934a, 8; emphasis added).

Accordingly, he urged a better understanding of the income distribution:

(Dis)different parts of the economic structure have varying influences which can only be fully understood when the relations of the flows of national income into consumption and investment channels are known (Ibid., 8).

For Dennison, the second of the two scenarios described above was the more pertinent for the situation at hand: because of a maldistribution of national income biased towards upper income brackets, more money was being saved than spent which had the disastrous consequences he outlined.

The second of these unpublished papers, 'Suggestions for a Popular Presentation of Planning', was an abridged version of the 1932 paper written for Gay's private study group. The only revision concerned the structure of a national planning board. In this later paper, he offered three alternatives: the creation of a new National Planning Board composing five permanent members from across the spectrum of society (as in the 1932 paper) assisted by nine part-time members possibly representative of organised interest groups; the development of a full-time agency under Roosevelt's National Emergency Council; and finally, his preferred alternative of expanding the functions and funding of
the newly created National Planning Board (later National Resources Committee, and finally National Resources Planning Board).24

Through 1935 Dennison continued to reiterate and expand on his thoughts—developed a year or so earlier but left unpublished and unheralded—on the deficiencies of the competitive system. This time around, he turned to the print media to get his message to a wider audience: in two published papers, both in trade journals of the paper and printing industries in January and March of 1935. The first was entitled 'Constructive Open Pricing vs. Destractive Price Cutting' and was an excerpt of Dennison's presentation in his capacity as a member of the code authority for paper and pulp products, at a NRA price hearing. As the title suggests, the paper reiterated Dennison's earlier call for open or public pricing. He began by criticising the destructive nature of cutting prices to sell below cost and how economists and business people alike have been "complacent in the belief that business cannot be carried on at a loss". Like unemployment, he continued, doing business at a loss has been an ever present factor in business history. Contrary to mainstream microeconomic theory, "(f)ew businesses stop when they fail...and private recapitalizations greatly exceed in number the thousands publicly recorded as liquidations" (Dennison 1935b, 13). He highlighted that the major casualty under these conditions is the "laboring class" because of their weak economic position, "as long as the demand for labor in this country is as far below its supply". Therefore, Dennison mooted open pricing and that "secret pricing be made illegitimate" stating that public knowledge of prices "constitutes one of the most fundamentally constructive steps toward making it possible to have intelligent management of American business. The more we can know of the business situation in which we find ourselves, the better chance business management has of careful and intelligent thinking as against guessing and lying" (Ibid., 13-14).

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24 This organisation comprised individuals like Roosevelt's uncle, Frederick Delano, University of Chicago political scientist Charles Merriam (and a friend and teacher of Herbert Simon), and Wesley Mitchell (Reagan 1982, 191-192). Dennison (alongside Beardsley Ruml) would later be personally appointed by Roosevelt to this organisation upon Wesley Mitchell's retirement.
Later in March, he published a second paper in this vein entitled 'Subsidized Capital and How It Can Be Checked'. He began by stating that as a business manager, he had been brought up "to believe that business competition is war" and in the process of this "war", competitors might cut prices below cost, "commit suicide" and create mass shutdowns in the process. "(W)hat little we had read of economic theory", he continued, "was very positive in stating that when (this occurred), that was that; and all the blood-letting would relieve the excess pressures of competition (Dennison 1935c, 7; parentheses added). Yet, he had serious misgivings about this process:

(I)f a competitor shoots blindly and kills a few, that is free, individualistic competition. ...Experience didn't take long to make this smooth automatic-sounding theory smell funny around the edges. The suicides didn't die, – or if they did, they kept on shooting. ...There was certainly no release, such as the economists talked about, from such competition. There were plenty of 'unseen hands', but they weren't busy with bringing about any compensating balances. The process was cumulative, not self-regulating (Ibid., 8; emphasis added).

He again emphasised that the major victims in this competitive "war" were wage workers who, contrary to mainstream theory, did not get "guided by an unseen hand" to available positions elsewhere in the supposedly self-regulating system:

Economic theorists of the classical school see (wage workers) shifting to other and more favourable occupations, – but the workers' more sadly realistic eyes miss this saving view. They know that such shifting is considerably easier on paper than it is on the face of the very real earth under their worried feet (Ibid., 2; parentheses added).

Dennison then turned to a discussion of how the NRA might remedy this "destructive competition" through its Office Memorandum No. 228 which explicitly recognised the evils of below-cost price cutting and advocated price floors and open pricing. As he saw it, destructive competition set prices so low as to remove the impetus for producing or improving methods of production, because of their cost. "It is for this reason", he concluded, "that there is sound social sense in 'price floors', whether based upon conservative costs or upon ad hoc determination as proposed by NRA's No. 228" (Ibid., 3-4).
Competition itself is subject to the 'law of diminishing returns'. A certain amount works to the social health; each degree added to it works less and less so until a point is reached where harm overbalances good. It is not merely a competitive system, therefore, which we want and must seek, but a system competitive at the optimum point, at which the unwholesome kinds are restrained, the less wholesome checked, and the true spurs to incitements to progress left free to work to our total good (Ibid., 4).

'Business and Government': Dennison's Overall Conception of the 'First' New Deal

Perhaps an epitaph for the NRA—declared unconstitutional in May 1935—but more an insight to his planning experiences in this network, Dennison's views concerning the relationship of government and business in the economy received a thorough treatment in a paper he published in the Michigan Alumnus Quarterly Review in June 1935.25 This paper, 'Business and Government', might well be regarded as one of the high points of Dennison's evolving sense of institutionalism and as an encapsulation of his earlier views regarding state involvement in economic and business affairs.

Dennison surveyed the realm of political philosophy in a bid to come to grips with different conceptualisations throughout history of the nature and purpose of government and business in society: from absolutist, theocratic, and aristocratic theories of government to the many variants thereof. One particular theory of interest to Dennison was the organismic theory given concrete expression by Hegel and his followers; in essence, the social group or nation possesses a sort of super-personality with a reality, significance, and value of his own, in addition to and superior to the sum of personalities of the people of which the nation is composed (Dennison 1935, 496). And further, each member of the society is at once an individual, a productive part of one or many sub-groups if the society, but is also a part of the whole, which must serve and be served if the whole is to survive and flourish (Ibid., 499). Therefore,

balance and coordination is the only prescription for total health. Sickness or injury suffered by a single group of...individuals, is suffered by the whole organism and has within it the possibility of serious or fatal disease. ...For no advanced living organism is a mere mechanical structure; it is a complex

25 Dennison was the recipient of an honorary doctorate (in business administration) from this institution in 1929. He also received the same degree from the University of Pennsylvania.
of material, emotional, intellectual, and spiritual forces. And since any social group is made up of an aggregation of the higher forms of living organisms, these non-material factors and forces are of the very essence of its nature (Ibid.).

Dennison continued this theme asserting that in light of this organismic theory, "it becomes clear that those mental habit patterns of society which we call traditions when we like them and prejudices when we don't, are factors to be reckoned with and dealt with, not merely complained about" (Ibid., 500). These habits of thought, alongside the material structure of society—"political, economic, and social institutions which are the organs of the body politic"—can only be altered "gradually and progressively". In sum, a nation for Dennison is of the general structure of a living, evolving organism whose purpose is the development of the individuals of which it is constituted to best contribute to "the evolutionary progress of the human race" (Ibid.).

Governing then becomes the task of managing such a social organism, of coordinating and balancing as well as may be at any moment the activities of its units, allowing such freedom among them as may permit and induce them to perform their separate functions to the maximum extent in the service of the whole. It is the task of applied social science – of political engineering (Ibid.).

Business, on the other hand, can be classified similarly to government in terms of its function in society. Dynastic or absolutist theory—that the owner has the right to do as they please with their business—is a common tradition, noted Dennison, as is the aristocratic theory that those in command are the fittest to assume this command. However, he noted that with the incidence of heredity, personal favouritism, and stock manipulation, and also the growing impact of business on social life, "we must ask ourselves whether a fitness concentrated upon profit-making alone is sufficient in positions of great power to guarantee our social security and progress" (Ibid., 501).

Of the widely held belief amongst business managers that business is a separate organism of society and therefore that government should not interfere—personified by the doctrine of laissez-faire as a reaction against extreme mercantilism and "which in practice has never existed in anything like a pure form"—Dennison asserted that as people spend most of their lives as part of the business structure, business governs the
lives of its workers, and so, is "a government within a government" (Ibid.). Therefore, as far as he was concerned

the business structure must be regarded as an organ of the total society which government must manage. It is that organ through which the individuals of the social community by their separate and corporate activities furnish valuable goods and services to each other. Political management must so set the stage that this, like any other organ, can function as fully as the total organism needs and only for the better health of the whole organism. ...Government must do its best to maintain its business structure as a healthy organ, to serve and be served. ...Business must expect to be restrained and limited, supervised and regulated to whatever extent is necessary to make its net total service the greatest it is capable of rendering. ...(It) must look insistently to the welfare of all who are in it, to the total satisfaction that they gain from their work, and regard critically and sincerely its function as an instrument toward the good of the whole community (Ibid., 501-502; italics added).

If business leaders have this outlook, he concluded, they can expect least government intervention; until they can "discover ways by which, and through which, (they) can bring its motives for service to its employees and to the rest of the community up to the strength of its motives to serves its investors, business must expect an increasing government interference" (Ibid., 502; italics added). The notion that business was just another institution making up the total society to be managed like any other, can be seen as one of the great lessons learnt by Dennison during his time in the New Deal. In fact, the remainder of the 1930s, spent largely with John Kenneth Galbraith, was crucial in planting in Dennison's mind the notion that just as the government must manage the institution of business or the production side of economic affairs, it must also manage the behaviour of the institution of households and their consumption and saving behaviour.

Conclusion

This chapter explored Dennison's thought on laissez-faire liberalism and the response of economists and the business community to the Depression in order to contextualise his thought as to causes and remedies. It was seen that Dennison shared with economists and corporate liberals a belief in the need for some form of economic planning at a national or macroeconomic level and that this materialised in the form of Roosevelt's
New Deal, in which he was a key advisor. It was also suggested, but to be more fully developed in the next chapter, that Dennison shared with some economists and business leaders a belief in the proto-Keynesian notion of compensatory public spending. Whilst Dennison was a visible member of that section of the business community proffering an 'overproductionist' explanation of, and a cartelisation remedy for the Depression, he actually came to hold an 'underconsumptionist' explanation of the Depression and so accepted a much greater role for the state in remedying the maldistribution of national income. These experiences shaped Dennison's thought regarding the place and character of the state in economic affairs and laid the seeds for his decidedly Keynesian macroeconomic policy analysis which would be tested and refined as a result of his intellectual relationship with J.K. Galbraith to be explored in the next chapter.
CHAPTER SIX

THE MAKING OF A HETERODOX ECONOMIST - A 'CASE STUDY': DENNISON'S INFLUENCE ON J.K. GALBRAITH

In 1937 Galbraith became a citizen. In the meantime, under the prodding of industrialist Henry Dennison and the stimulus of Keynes' General Theory, he began both his inquiries into the industrial order and his defection from neoclassical economics.


Much like Veblen, the intellectual figure with whom his thought is most often compared, a voluminous literature has evolved in the history of economic thought attempting to unravel the unique contributions of John Kenneth Galbraith. Long-time Harvard professor, presidential advisor, speechwriter and Ambassador to India, bestselling author and a former editor of Fortune, Galbraith is without doubt one of the most widely read and easily recognisable (excusing the pun) of 20th century economists. Not nearly as much the subject of confusion and debate as is Veblen, though no less controversial, Galbraith and his work is a lively topic of debate amongst economists.¹

Yet within this research field and despite Galbraith providing some guidance in interviews and his ‘official’ and ‘unofficial’ memoirs (much of his work is in some sense autobiographical), very little has been said about a key period in Galbraith’s intellectual development that laid much of the philosophical groundwork for his ensuing research agenda. The period referred to is the second half of the 1930s when, following his early New Deal service and initial Harvard appointment, Galbraith became something of a peripatetic scholar, teacher and researcher and found himself employed as a ‘tutor-in-residence’ to Henry S. Dennison. They subsequently penned two largely overlooked

¹ Particularly so amongst those analysts operating within the American institutionalist tradition who readily claim him as one of their own. See, for instance, Gruchy (1972, ch. 7) and Stansfield (1996, 153-160).
monographs, *Modern Competition and Business Policy* and *Toward Full Employment*, both published in 1938.

The purpose of this 'case study' chapter is to explore at length Dennison's influence on an economist considered by many adherents, though less so by himself, to be the most important living exponent of 'old' institutionalism in the sense of being in the tradition of Veblen, Commons and Mitchell. The central task is to review Dennison and Galbraith's two joint works and more importantly, to utilise the latter's testimony to elaborate upon the snippets of reference in the secondary literature to this key period in his life.² It is argued that Dennison played a key role in prodding Galbraith to defect from the mainstream orthodoxy and embrace the then controversial ideas of Keynes' *General Theory* before their wider acceptance at Harvard, the latter being 'the principle avenue by which Keynes' ideas passed to the United States' (Schlesinger 1984, 9; Galbraith 1971, 49).³ Apart from positive affirmation of this point in Galbraith's reminiscences, this development comes through loud and clear in the second of their 'joint' publications, *Toward Full Employment* (*TFE* hereafter) a volume that is decidedly Keynesian in its overall flavour. It is also argued that Galbraith's later foray into the US industrial order—particularly in *American Capitalism* and *The New Industrial State*—was also an important outcome of his defection from the orthodoxy, particularly in the realm of industrial organisation. It is argued that the seeds of Galbraith's embrace of more heterodox ideas regarding the functioning of the industrial order were planted in his mind

² See Hession (1972), Gambs (1975) and Schlesinger (1984). A more recent work, that by Stansfield (1996), makes no reference whatsoever to Dennison or his work.

³ In this context, it should be noted that because of his friendship with Dennison, Galbraith's interest in Keynes' ideas, though no doubt heightened in 1938 and into the 1940s, chronologically preceded those of his more well-known colleagues (save, perhaps, for Lauchlin Currie - see Sweezy (1972)) such as Alvin Hansen, newly arrived from the University of Minnesota, and others who attended Hansen's fiscal policy seminars. Yet given most of his colleagues were beginning to embrace the ideas contained in *The General Theory* in the late 1930s and early 40s, Galbraith, a junior appointment, would have found it more congenial and more practical career-wise to express his 'conversion' more openly at this time rather than earlier. To wit, an earlier colleague of Galbraith's (and later a economic advisor to Roosevelt) Lauchlin Currie "failed of promotion at Harvard partly because his ideas, brilliantly anticipating Keynes, were considered to reflect deficient scholarship until Keynes made them respectable" (Galbraith 1971). The fact remains, as will be made clearer below, that Galbraith was on the side of Keynes much earlier than Hansen *et al* as a result of his debates with Dennison and his reading of Keynes in 1936 and owing to his visit to the Cambridge University in 1937.
as a result of his relationship with Dennison and that this can be gleaned, in part, in their first joint venture, *Modern Competition and Business Policy* (MCBP hereafter).

Expressed in a rhetorical sense, the vital question the chapter seeks to answer is: why did an agronomist *cum* agricultural economist, who by his own admission was heavily steeped in economic orthodoxy, subsequently embrace (the then heresies of) Keynesianism and subsequently embark upon an unmistakably heterodox expose of the inner workings of the US socioeconomic system? In other words, what forces were at work to inspire an individual from an otherwise unextraordinary rural background in Canada to write perhaps one of the most incisive analyses of American society and its most pervasive and distinguishing sociocultural artefact, the modern business corporation? In positing answers to these questions, the chapter is organised as follows. It will begin by outlining the nature and significance of the intellectual relationship between Galbraith and Dennison and in this context, and then examine Galbraith’s recollections in order to assess the extent of Dennison’s influence on the former’s embrace of the ideas of Keynes. The chapter then turns to their joint monographs as a means of evidencing both Galbraith’s evolving acceptance of Keynes, and also the emergence of his interest in a more heterodox consideration of industrial organisation. And finally, this line of argument is pursued more forcefully and it is demonstrated that the germ of ideas developed by Galbraith in later writings on industrial organisation, the corporation and the behaviour of business managers were contained in the joint publications with Dennison.

**The Dennison-Galbraith Nexus**

After completing doctoral work at Berkeley and following a brief stint with the Agricultural Adjustment Administration in Washington, in late 1934 Galbraith joined the Department of Economics at Harvard, arriving at around the same time as Schumpeter. Here Galbraith met, among others, Edwin Gay who had returned to the Cambridge side of the Charles River after distinguished service as foundation dean of the Harvard Business School. In the summer of 1936, Gay introduced and recommended Galbraith to
Dennison, as a possible teacher of economics. Galbraith was subsequently hired by Dennison as a tutor-in-residence and to assist in the preparation of a manuscript that Dennison, together with fellow Taylorist businessmen Lincoln Filene, Morris Leeds and Ralph Flanders, wished to propound as the liberal business response to the Depression. These corporate liberals were united in the view that government had to do something about escalating unemployment and so broke with conservative business ranks in support of Roosevelt. The ensuing intellectual collaboration between Galbraith and Dennison marked the beginning of a friendship that lasted until Dennison's death in 1952 and that continued thereafter with members of the Dennison family (Galbraith 1996a; 1981, 63).

In an interview with this writer in 1996, Galbraith stated that Dennison was a "quasi-parent" or "parent in residence" to him, taking him in when he knew few others amongst the hallowed Harvard environs. It would seem that Dennison sympathised with Galbraith who was very much an outsider owing to his educational, ethnic, and class background. Despite being from a background much like his Harvard peers, Dennison felt a distinct sense of alienation both during and after his own Harvard years (Galbraith 1996a; 1981, 63). Besides this point of commonality, and crucial for the scope of this chapter, Dennison had a profound effect on Galbraith's economic thought, just as Galbraith, through his intellectual relationship with Dennison, was to sharpen and deepen the latter's perspective on economic matters. It is to these issues that the chapter now turns.

4 In this context, it might be apt to mention Dennison's diverse interests beyond the scope of running a business, as Galbraith (1981, 61) does, and that Dennison was by no means a dilettante: "When some new subject captured his imagination, he regularly hired someone of professional competence to give him instruction".

5 Galbraith actually lived in Dennison's spatial Framingham, Massachusetts home and occupied a room in the house at intervals for several years (Galbraith 1981, 63).

6 As Galbraith (Ibid., 62), explains Dennison thought most of his fellow Boston businessmen were boring, and "allowed their commitment to personal dignity, popular cliche and the Republican Party and their hatred of unions to override any residual intelligence". In this context, it might be mentioned that at one stage some of his fellow businessmen boycotted Dennison products because of his 'radical' tendencies; he was thought to be spoiling the working classes (Ibid.).
Upon commencing his duties as Dennison’s tutor, Galbraith was immediately struck by Dennison’s deep understanding of economics – he possessed what Galbraith termed “a shrewd analytical view” towards the workings of the economy, a rare thing for a businessman both then and now. So much so, Galbraith ventured to call Dennison “arguably, the most interesting businessman in the United States” (Galbraith 1981, 61).

When questioned recently as to the basis of this statement, and to what extent Dennison differed from other notable corporate liberals of the period, like the Filene brothers or Gerard Swope and Owen D. Young at General Electric, Galbraith replied as follows:

They had a welfare bent but none of them, with the possible exception of E.A. Filene had thought deeply about the working of the economy, how through macro and micro economics, as it later came to be called, you facilitated a better operating economy. They had welfare sense, but Dennison, for a businessman, had a shrewd analytical view. ...As a businessman, he was a pioneer in welfare economics. His staff, his workers had unemployment compensation, social security, and when the Depression came — which was a very difficult time for him — he reduced his own salary as part of a program of maintaining income for his workers (Galbraith 1996a).

Galbraith also discovered that most of Dennison’s economic ideas ran counter to the textbook teachings on which he himself had been reared. At their time of meeting, though he had been exposed at Berkeley to Veblen and Marx (and he was very much taken with the former), Galbraith was first and foremost a neoclassical economist.7

The clash of economic ‘world views’ between the orthodox young economist and the progressive businessman resulted when Galbraith attempted to answer Dennison’s questions concerning the causes of the 1930s Depression. This caused a major difficulty:

It was that Dennison already had a firm idea as to what was wrong with the economy. And so had I. My view derived from the...classical orthodoxy of Alfred Marshall as modified by the recently published work of two young economists Edward H. Chamberlin of Harvard and the wonderfully

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7 In this context, Gamb’s (1975, 17) has noted that upon completion of his PhD at Berkeley, Galbraith “was thoroughly grounded in neoclassical economics and acknowledged a considerable debt to Alfred Marshall”. Pratson (1978, 6) similarly observed that “(i)n his early reading of economics, Galbraith was thrilled by neoclassical economics as it was presented by Alfred Marshall”. More recently, Galbraith himself stated that “It was Marshall’s Principles that I read, to some extent mastered and to a large extent accepted after arriving in California in 1931” (Galbraith 1994, 43).
independent and formidable Joan Robinson of the University of Cambridge (Galbraith 1981, 63).

Accordingly,

I told him that free competition had given way to oligopoly and monopolistic competition, and because of the latter too many resources were being wasted on advertising and salesmanship. The shortfall in production from these defects caused the depression from which the United States and the world then suffered. The remedy was more competition (Ibid., 64).

Or as he expressed it more recently:

When I first met him, I was "caught". This was before The General Theory and I was of the orthodox impression at that time that the Depression was caused by the restrictive activities of great industry—monopoly—that one had full employment, large capacity in agriculture where you had competition. You did not have that in industry and that was what explained the depressive character and unemployment of industry and this was associated with its rigid prices. I persuaded Dennison along these lines. He was resistant to it, but I persuaded him and that was one of the themes of the (first) book we wrote together, Modern Competition and Business Policy (Galbraith 1996a).

And elsewhere:

I came up with the notion that the problem was in the price structure, and persuaded Dennison sufficiently so that the two us (sic) wrote a book, which I've always recommended that people not read. ...(It) was published by the Oxford University Press, which must have been hard up for material at that time (Galbraith 1996b, 136).

Yet despite being temporarily persuaded by Galbraith, Dennison in fact held a decidedly different view and one that shook the very foundations of Galbraith's commitment to economic 'truth', personified at that time by the twin edifices of Say's Law and neoclassical orthodoxy. In short, Dennison did not accept the mainstream explanation of the Depression, as Galbraith observed:

(0)ne of his more remarkable features in the area of economic affairs was that, in some respects, Dennison anticipated Keynes. ...He (Dennison) saw income moving out from the production of goods in two broad streams. One stream went to people of modest income and was likely to be spent. The other went to the more affluent or to the business enterprise, and this was likely to be saved. There was a spendings and a savings stream, and these terms...were Dennison's own. Depression, he believed, was caused by the nonspending of the income in the savings stream. The remedy or partial remedy was to shift taxation from income that was being spent or was on its
way to be spent to income that was on its way to be saved – from a sales tax, as one example, to the corporate or personal income tax (Galbraith 1981, 64).

To Galbraith, and indeed anyone properly weaned on the orthodoxy, this was pure heresy. As was seen in the last chapter, though mainstream economists frequently made allowances for temporary market failure to be corrected by government intervention, few if any were prepared to question the sanctity of Say's Law. For the majority of mainstream economists before the publication of The General Theory, production created the necessary purchasing power to ensure that all that was produced was bought and any 'leakages' in the savings stream, as they were later to be called, were 'soaked up' by borrowers who would then use these funds to consume. In other words, the economy if left to itself would find equilibrium at full employment owing to the adjustment of wages or interest rates.

Galbraith therefore resisted Dennison's line of thought. And for good reason it seemed:

Whether a man accepted or rejected Say's law was, until well into the nineteen-thirties, the test of whether he was qualified for the companionship of reputable scholars or should be dismissed as a monetary crank (Galbraith 1952, 22).

And elsewhere:

In 1936, it was not only wrong but professionally unwise to resist Say's Law. It was a litmus by which the reputable economist was separated from the crackpot. ...Since I took seriously my reputation as well as my commitment to economic truth, my dilemma, given Dennison's heretical vision, was a difficult one (Galbraith 1981, 65).

This dilemma became more difficult for Galbraith, for as he observed, "in the very same weeks that I was writing my brief for my views on competition and thus refuting the errors of Dennison, I was reading The General Theory" (Ibid.). Thereafter he discovered that Keynes was with Dennison and not with himself: Keynes' underemployment

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8 There were, however, a vibrant minority of economists who questioned Say's Law well before Keynes as analysts such as Davis (1971) and Barber (1985; 1996) have documented.
equilibrium explanation was more sophisticated but held the same practical consequences as Dennison's! As he explained:

While (our) book \((MCBP)\) was going through final revisions I read *The General Theory*. The terrible thought developed in my mind that I had been wrong in persuading Dennison as I did, that he was instinctively right, and I told him so. I got the disconcerting answer that, "Indeed, I always thought that among economists Keynes made more sense than most". Unfortunately the book had gone so far it couldn't be stopped. It was well received by some of the orthodox of the profession (Galbraith 1996b, 136-137).

And elsewhere:

I was shaken. This was not the primitive instinct of a businessman; this was the sophisticated case of a greatly renowned economist. I decided I should tell Dennison...I explained how Keynes supported him and not me. (Galbraith 1981, 65-66).

Dennison had, in fact, read most of Keynes' earlier work and had always admired him (Galbraith 1996a).

Yet neither Galbraith nor Dennison was completely sure of the accuracy of their respective positions as to the cause of the Depression. For his part, in 1937 Galbraith went to Cambridge, England, to study under the master himself. Though Keynes was absent owing to the first of his heart attacks, there were plenty of forthcoming acolytes in the guise of R.F. Kahn, Joan Robinson, Kalecki and Sraffa, to convince Galbraith of the logic of the ideas espoused in *The General Theory*. Meanwhile, back at Cambridge, Massachusetts, Dennison wondered if there might be some truth in Galbraith's position and took their joint manuscript to his friend Felix Frankfurter at Harvard Law School for judgement. The latter left the manuscript on his desk unread and subsequently passed it to an editor of Oxford University Press, thinking it a book in search of a publisher. It was accepted for publication. According to Galbraith, it was a bad book that should never have been written. But being in accordance with majority orthodox opinion, it was warmly received (Galbraith 1981, 66; 74).
Modern Competition and Business Policy: A Prelude to Later Galbraith

Despite Galbraith's reservations about *MCBP*—the book rarely appears in his publications under the banner of books under his authorship—and even if marred by the 'blinkers' of its relatively orthodox outlook, the volume was an interesting exercise in industrial organisation and a neat popularisation of the work of Chamberlin and Robinson on market structure, and Berle and Means on the corporation. As the anecdotal evidence referred to above attests, *MCBP* proved to be more representative of the views of Galbraith before his 'conversion' to the more heterodox ideas held by his co-author, Dennison. Recall that *MCBP* was the outcome of a 'brief' that Galbraith prepared for Dennison to correct his heretical opinions as to the cause of the Depression and to sway him to the view that more competition was the most appropriate remedy (Galbraith 1981, 64). This was a view that would undergo a fundamental transformation in Galbraith's later work.

In the Foreword to *MCBP*, Dennison and Galbraith stated that their aim was to explore the shortcomings of what they termed the "good health equilibrium" view of the economy in relation to the workings of the business sector or "industrial organization" and to suggest appropriate remedies. They claimed to have built their analysis around the theory used to gauge the 'degree of competition' — the converse of Lerner's 'degree of monopoly'. In other words, they aimed to describe the modern competitive structure and compare this with *actual* business experience or practice. In their disclaimer, they stated that "responsibility for the correctness of their theory and analysis must rest primarily with the economist and for suggested action upon the business man" (Dennison and Galbraith 1938, 6-7).

They opened the volume proper by outlining the standard ideal of competition familiar to any economics undergraduate and which will not be further elaborated. They

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9 As Galbraith has noted, "I thoughtfully omitted from my list of published writings" (Galbraith 1994, 86).
then qualified this précis by advancing a perspective Galbraith was to later refine and strengthen in *The New Industrial State*: that the simple statement of textbook orthodoxy, or some refinement of it

has been regarded as more, much more, than a statement of what would be ideal in industrial organization. It has been regarded as the state of affairs which actually exists when industry is organized by competition (*Ibid.*, 13).

In reality, the authors further observed,

this kind of competition is quite different from that which prevails in modern industry...and there are, in fact, very real differences between competition of the automatic and self-regulating sort...and competition of the modern industrial world. It has been one of the most pervasive and dangerous misconceptions of our economic and political life to think that there is only one kind of competition (*Ibid.*, 19).

They stated that agricultural staples were perhaps the only major example of self-regulating competition and elsewhere, the industrial terrain is characterised by "a relatively small number of relatively large producers and the tendency of many individual producers to acquire more or less distinct submarkets of their own" (*Ibid.*, 21). This was said to give the leaders of these enterprises "a measure of jurisdiction over the prices of his products". In other words, and in the Chamberlin-Robinson-Berle-Means tradition, Dennison and Galbraith saw that industry was characterised by administered prices—*price makers* rather than *price takers*—and that this 'market power' emanated from product "separation or differentiation", market segmentation, and diversification into upstream and downstream markets.

The effects of "producer price jurisdiction" and the ensuing relative price inflexibility, at least in terms of the frame of reference of the competitive ideal, were judged by Dennison and Galbraith to impair or eliminate the self-regulatory aspects of competition. Price-making or market power was said to result in underproduction and overpricing, price wars and cutthroat competition, and over-investment, excess capacity and wasteful sales promotion. Herein the essence of the explanation Galbraith gave Dennison as to the cause of the Depression: "we have in price jurisdiction and the attendant curb on potential output one significant explanation of the failure of the
American economy to achieve the standards of abundance which all with a gleam of imagination know are possible" (Dennison & Galbraith 1938, 37). Important also in this regard is the fact that the duration of the Depression was explained by the authors as being due to the interference, by price jurisdiction and resultant relative inflexibility or rigidity of prices, with the delicate signalling network characteristic of self-adjusting or clearing markets: "That prices in most of the industrial world have no such prompt and sensitive response, "is a matter of common knowledge" (Ibid., 51). The remedy therefore, was more competition. As suggested above, this explanation proved to be premature and underwent substantial revision as part of Galbraith's intellectual 'conversion' to the ideas of Keynes and his belated acceptance of Dennison's reasoning. It will be argued later that Galbraith underwent a wholesale intellectual 'turnaround' in this regard, from being an exponent of more competition to a staunch critic and further, to a defender of big business as an organic and necessary component of contemporary industrial life.

With the competitive 'ideal' out of the way, the second part of the volume turned from the atomistic producer and moved to a discussion of the modern day corporation, foreshadowing much of Galbraith's future work. Yet having said this, the bulk of the analysis remained squarely within the mainstream, Chamberlin-Robinson tradition. Nevertheless, towards the conclusion and without any apparent supporting argument, the authors claimed that "(w)e dissent from efforts to meet the problems of the modern corporation by reducing its size. Arbitrary measures to prevent bigness per se we regard as not so much harmful as merely lacking a reasoned and defined objective" (Ibid., 118; emphasis added). This is an important point, because despite the authors' apparent case of 'intellectual schizophrenia' (which is not surprising given the lack of finality in both their minds as to the soundness of their views in this particular volume), the final chapters of MCBP proved to be more representative of the intellectual debates between the authors referred to earlier in the chapter and more indicative of the direction Galbraith was to take in later work.

10 In small part, this is vindicated by the fact that there is no reference to Coase's 1937 paper on the nature of the firm, the authors concluding that industry is organised or coordinated "largely through the price machinery" (Dennison and Galbraith 1938, 63).
This surfaces clearly in the proposition made by the authors: "if it is accepted that any form of industrial organisation straying from the self-regulatory competitive ideal is bad, and that a restoration of this ideal is good, this raises the problem of restoring "something which has never existed in most modern industry" (Ibid., 82); or, restoring "the sort of business structure which the nineteenth-century business man and economists assumed (and still assumes) to exist, but which may not exist" (Ibid., 80). "The alternative", for Dennison and Galbraith therefore, was "to accept American business as it now is and to attempt to design a set of mechanisms which will do some of the work of the automatically self-regulating features which have been lost" (Ibid., 80; emphasis added). In other words, in order "to re-design and supplement the organization of modern industry to provide that degree of regulation which is so obviously essential" (Ibid., 83), it is necessary that socio-economic institutions be called upon for this service. In this regard, the authors note that "(t)he present task...is not to improve the machinery for doing an old and familiar job. It is to invent new machinery for a new job" (Ibid., 104). In other words, there is no advocacy by the authors of antitrust action, and so, it was an important departure from the regulatory consequences of the Chamberlin-Robinson theory which, almost without exception, leaned towards virtually automatic antitrust action. It was a stance vindicating the decidedly institutionalist outlook of the authors and one that very much foreshadows Galbraith's later insistence that corporations should be regulated in the public interest rather than broken up into smaller firms as prescribed by antitrust laws motivated by outdated notions of atomistic competition (Hession 1972, 24; Gambs 1975, 40).

To be sure, the proposals offered by the authors for restoring close to capacity production with less unemployment, for freedom from price warfare at consumer expense, and for reducing the susceptibility of industry to booms and depressions were very much in keeping both with Dennison's personal activities and his philosophical approach to business management as a profession: industrial publicity, regulation, and corporation policy. The first proposal, "industrial publicity", urged the sweeping away of the veil of secrecy shrouding American business and reporting and releasing information
pertaining to production, prices, sales, earnings, assets and liabilities, inter-corporate stockholdings, employment, and wages and hours. This would ensure "that sound national progress and sound business growth alike (be) made on the basis of knowledge and not on guesswork" (Ibid., 85; parentheses added). This would be administered, claimed the authors, by Congress designating a government department and bureau to "direct the work and give formal recognition to the trade association as a co-operating agency" (Ibid., 96)—in other words, by utilising the existing trade association machinery "organized for a similar purpose" except now the focus would be macro—rather than a microeconomic focus.

Dennison and Galbraith's analysis of regulation focused on the history and problems of regulation, surveying regulation in railways and utilities and other industries subject to natural monopoly conditions. They repeated their earlier aversion to automatic and blind reliance on antitrust action noting that this might work should there exist pure, or what they call '100% monopolies'. However, and this foreshadows much of Galbraith's future work, they characterise antitrust legislation as a "misdirection of legislative emphasis" noting that it is not isolated cases of monopoly or else firms controlling over half of the industry, "but a growth of single producers to sizes large enough to affect price appreciably which is the basic factor in eliminating the self-regulatory character of industry" (Ibid., 103). Accordingly, they argued that the US economy was incapable of being controlled by self-regulation and therefore, government must become more than a passive referee: "If industry cannot regulate itself...then the responsibility rests with the state (Ibid., 105). By this they meant cooperative and experimental industrial planning under the aegis of a planning commission empowered by Congress to regularise and stabilise production and output and enforce price and labour policies and standards in the social interest (Ibid., 106).

Overall, MCBP can be best considered as providing a window into the intellectual relationship between the authors and their debate as to the efficacy of mainstream economics—Marshall plus modifications by Chamberlin and Robinson—in explaining the cause of the Depression and more importantly, what was to be done about it. As argued
below, it also laid the foundations for Galbraith’s incisive exploration of the inner workings of oligopolistic US corporations.

**Making Amends: Toward Full Employment**

Though Galbraith was formally employed as a ‘ghost’ writer in the preparation of *TFE*, he used it as a launchpad for his revised economics ‘worldview’ – “(i)ts publication coincided almost precisely with my emerging doubts as to the validity of its argument” (Galbraith 1994, 86). As noted, after reading *The General Theory* and studying at Cambridge University he became convinced that “Dennison was right and that our book (*MCBP*) was wrong” and therefore, *TFE* “was designed to correct that earlier error” (Galbraith 1996a). He has also recently stated that *TFE* “embraced Keynesian ideas to a much larger measure” and when he was drafting the ideas of Dennison, Flanders, Leeds and L.A. Filene, “I put together their ideas with, as I say, a heavy Keynesian overtone” and noted that though his name doesn’t appear on the title page, drafting this volume “was the process by which I became attracted to Keynesian ideas” (Galbraith 1996b, 137).

The official ‘authors’ met on a regular basis at Dennison’s home to ‘brainstorm’ with Galbraith, though the latter was responsible for the final draft. The book represented a liberal business view of the Depression and the New Deal, seeking to “diagnose our trouble and suggest remedies” (Dennison *et al* 1938a, v). The ‘authors’ noted that “(n)one of us can claim technical training as …economist(s), but we have spent our lives dealing with the basic material of economics” (*Ibid.*, v; parentheses added). The book was divided into three parts: Part One was concerned with ‘The Provision of Useful Employment’ and Leeds’ section; Part Two with ‘Fiscal Policy and the Business Cycle’ was Flanders’ contribution; and Part Three on the tax system was Dennison’s section. Lincoln Filene listened and encouraged during the ‘brainstorm’ sessions but did not contribute appreciably (Galbraith 1981, 66).
Dennison’s chapter, entitled ‘Toward A Tax System That Fits’, revealed the impact of Keynes on both ‘authors’. The emphasis was on demonstrating how the tax system could be used for maximum employment. As mentioned in the anecdotal analysis above, Dennison convinced Galbraith that the continuous and dynamic flow of income as divided into two streams: a consumption stream and a savings/investment stream. As he reasoned:

The money income which is being released by production of goods and services at any time may be looked upon as a stream which separates itself to flow into two channels. One fork of this stream—it may be termed the consuming stream—flows to be exchanged for consumers’ goods. ...The second fork of the stream—which may be termed the savings stream—is spent not for consumers' goods, but for the purchase or construction of capital goods (Dennison et al 1938a, 160-161).

Therefore, he continued, “(I)n one sense the consumption stream turns the millwheels while the investment stream furnishes more wheels to be turned” (Ibid., 5). According to Dennison, the latter was a point lost on the fiscal authorities. Through his analysis of the tax system, he found that it was “too heavily weighted against consumption” (Ibid., 5). His overriding aim, therefore, was to “reexamine (the) distribution of taxation between income flowing into consumption and income flowing into savings” because, in his opinion, the present distribution between these two was “not the best possible” (Ibid., 163).

The current distribution of tax burden was inefficient, according to Dennison, because it impacted unfavourably on consumption. This was because households—especially lower income-higher spending households—’ability to pay’ taxes depended on their budget constraints or nominal incomes. In other words, Dennison

11 Though Dennison’s interest in taxation and public spending had a long history. For instance, just after becoming president of the Dennison Manufacturing Company in 1917, and as a leading figure in the city of Framingham local government, he made an 8-year estimate of future tax rates and a 5-year street building plan involving advanced town budgeting (J.T. Dennison 1999).

12 This is actually different from the emphasis of Keynes who, as is well known, saw the problem of insufficient aggregate demand in terms of inadequate investment demand. Dennison saw the same problem in terms of aggregate demand but focused more on consumption expenditure as being inadequate, hence his policy prescription of tax reform.
realised that “it is not necessarily true that all of the taxes paid by each income group are divided between saving and consumption in strict proportion to the way in which the group divides its entire income” (Ibid., 166). The imposition of taxes may actually alter or thwart consumption, as he highlighted:

the imposition of tax on a commodity of a highly inelastic demand may not reduce its sale to low income families, but may force these families to reduce the use of another commodity of more elastic demand. Such a tax would thus come completely from consumption. On the other hand, wealthy groups may maintain a given living standard regardless of changes in taxation. In increase in the tax on bread would merely diminish their surplus of income over all consumption expenditures. It would come entirely out of what would have been saved (Ibid.).

This is disastrous for overall consumptive demand (later called aggregate demand), according to Dennison, because it is lower income groups that have a higher tendency (known subsequently as propensity) to consume. He suggested that this was a possible factor behind the underconsumption that caused the Depression.

In his examination of the contemporary distribution of tax incidence on consumption and savings in the US, Dennison found evidence to support his initial hypothesis regarding the overburden on consumption. That is, after examining taxes on corporations, individuals, goods, and property, he found that “taxes in our country fall 73 per cent upon the consuming stream and 27 per cent upon the savings stream” (Ibid., 185). He noted that in some cases, such as that of tobacco and alcohol, taxation on consumption was deemed to be a social necessity to control demand for those commodities. But on the other hand,

it is apparent, also, that by shifting to income and inheritance taxation and abandoning taxation of commodities, it is possible to shift some of the burden from consumption to savings (Ibid., 188).

In this way, Dennison was an early US advocate of progressive income taxation as a means of restoring and maintaining purchasing power. Whilst his focus on the ‘savings stream’ as a possible tax base revealed that both he and his ‘ghost writer’, Galbraith, were decidedly influenced by *The General Theory*. 
This is evident in Dennison's refutation of the capital market clearing function of interest rates, being of the view that "the rate of interest has a very limited bearing on the decision to invest in capital goods", "that the supply of savings and the extent of the use which is made of that supply have no close relation to one another", and that "in the case of an excessive supply of savings there would appear to be no 'self-corrective' influence which would lead (through a lower interest rate) to restricted saving and increased use and so to complete utilization of supply" (Ibid., 192-193; parentheses in original). This was dangerous for overall consumptive demand or purchasing power, he postulated, because it meant there was no self-corrective mechanism to prevent hoarding: "Is it possible that the total of the income paid out or made available by production will not be spent?" (Ibid., 194). In words reminiscent of Keynes, "(t)here is a 'leak' between what he (the consumer) receives and what is spent" (Ibid., 197; parentheses added). Savings here being explicitly labelled a 'leakage' from the circular flow of income.

The crux of Dennison's analysis in this context is that he observed that there is "evidence of an insufficiency of purchasing power in the hands of consumers to buy the potential output of industry" but that there is "no evidence of an insufficiency of saving to meet the demands of industry for new capital equipment" (Ibid., 199). This being the case, it was obvious—at least for Dennison—"that the case for shifting a reasonable amount of taxes from the consuming stream to the savings stream is a strong one" (Ibid., 201). During good times, he continued, taxation of consumption is replaced or counter balanced by government or government employee spending. So too taxation of savings during good times results in government spending replacing private investment and in some cases, replacing wasteful speculation in stocks. Yet during depression, the effect of these two types of taxation is different:

13 A matter of some importance in light of contemporaneous developments across the Atlantic, where at Oxford, Hall and Hitch (1939) reached the same conclusion after doing extensive empirical work in 1938.
14 In this context, it is interesting to note the similarities of Dennison's views to those of Oxford Economists' Research Group, like Hall and Hitch (1939), and Philip Andrews (1949), who in the exact same period, also disputed the significance of interest rates in management investment decisions.
Taxation of the savings stream will bring a positive increase in spending. For now part of funds which would otherwise have been uninvested savings are taxed and spent by the government. The result is a larger volume of spending and a smaller volume of hoarding during depression than if taxes all fell upon the consumer (Ibid., 200).

And further, these potentially idle savings funds,

(if taxed and expended by the government there will be not only the initial employment and expenditure by the amount involved but also the indirect and secondary expenditure by those from whom the government buys materials or at whose establishments the recipients of government pay-checks trade. The relief of the consumer from taxation causes the tax system to work against rather than with the deflationary pressure of a depression period (Ibid., 201-202).

As for overall policy prescriptions, Dennison advocated a long-time program of tax reform that generally eliminated Federal consumption taxes—except where socially necessary—and a greater taxation of income and wealth at all levels and on all economic actors. In his view, “the case for shifting a reasonable amount of taxes from the consuming to the savings stream is a strong one” (Ibid., 201). Further, an income tax “effects the redistribution (of income) with less damage and more benefit to the functioning of the economic system than any other tax of equal importance” (Ibid., 217). Likewise, a tax on inheritance, general property, and land transfers has the same properties as income taxes in terms of taking some of the burden off consumption.

**Intellectual Convergence: Galbraith's Later Work**

That the tension between the authors, albeit somewhat shrouded in *MCBP*, was in some way responsible for Galbraith's later heterodox position regarding industrial organisation has been intimated rather than fully explored by Hession (1972, 24) and Gambs (1975, 40). It should be also noted that the line of causality of influence was certainly not all in one direction: Dennison's own ideas were evolving and becoming sharper as a result of his debates with Galbraith. The fact that he allowed his name to appear on *MCBP* bears testament to the fact that despite severe misgivings, he thought there was some truth in Galbraith's position. These points are borne out nicely by comparing and contrasting a small discussion of Dennison's published in the *Journal of Economic History* in 1943,
and two largely overlooked papers written by Galbraith; in 1949 and 1955. These writings reveal both authors’ re-evaluations and sharpening of earlier ideas in light of their mutual influence on one another.

The outcome of a commentary on a paper by economic historian Thomas C. Cochran concerning historical and theoretical aspects of Chamberlin-Robinson imperfect competition, Dennison’s 1943 paper continued in the spirit of MCBP by comparing theory with actual business practice. As to production decisions as having no relation to effective scale of production, for Dennison, this is nothing novel “for of course our output never did have any relation to theoretical effectiveness”. And further:

When fundamentally you make to order (as what manufacturer doesn’t?), and are not in business solely for your health but are trustees for a thousand or two stockholders, how in glory can you choose the ‘most effective scale of production’ unless you define ‘most effective’, as we always did, as that which yielded the most net profit or the least net loss? (Ibid.).

And as to mutual interdependence in pricing decisions, again, apart from finding nothing all that new in this theory in light of his business experience, Dennison believed that Cochran makes too little of the point:

Our company...universally set prices on our guess or knowledge of the action (please note I did not say ‘logical action’) of our market rivals...(T)he process of pricing was always the same. After Thurman Arnold’s reverberations have died out there will still be uniformity and some unanimity in pricing because we shall each judge of our rivals’ ‘logic by starting on the basis of our own (Dennison 1943, 48).

This is an important point in light of Galbraith’s later position on the efficacy of antitrust legislation: it demonstrates that Dennison harboured a sceptical stance on the worth of the Department of Justice’s most visible protector of free market competition. As he remarked further:

It has always seemed to me that the word competition (like several others) as used in economic theory was a huge over-simplification; there are too many varieties and mixtures of elements to pack into that one word, it is as if chemists had no word beyond ‘element’ or ‘metal’. ...I suppose economic theories deal with averages; but economic history will have to hunt hard and long to find an average fact. ...My guess is that economic theory must move, and is moving, along the painful road from the over simple to the truly
complex, just as physics has moved from four elements (earth, air, fire, and water) to eighty-six elements and God knows how many isotypes and crippled atoms (Ibid., 48-49).

Dennison’s concluding remarks in the paper are also indicative of the direction in which Galbraith would later head, particularly in the context of the nexus between imperfect competition and cyclical downturns. Dennison here repeated the stance he originally took on Galbraith’s explanation for the Depression; that is, he rejected the mainstream policy (though not the theoretical import) interpretation of the Chamberlin-Robinson line—virtually automatic antitrust action—which Galbraith had espoused prior to his acceptance of Keynes’ General Theory. As he concluded:

When a community produces more than the bare staples of subsistence, and especially when it begins making goods to order, prices seem to get further and further away from being automatic regulators of the business cycle. And in all essentials a large majority of manufactured goods are made to order, or to an order in sight. To prosecute combinations in restraint of trade has its good point, but to suppose that when they’re all prosecuted we shall be freed from cyclical depressions and unemployment is fatuous (Ibid., 50).

As will be seen below, this is almost identical to Galbraith’s later stance on the (what he believed to be) misguided actions of the Temporary National Economic Committee in restoring and maintaining a textbook notion of competition in the industrial sector of the American economy.

Turning, then, to the first of Galbraith’s papers mentioned in opening this section, ‘Monopoly and the Concentration of Economic Power’ written for the American Economic Association’s Survey of Contemporary Economics, after an overview of the work of Sraffa, Robinson, Chamberlin, and Gardiner Means, Galbraith concluded that “(w)ithout much doubt the dominant market of modern capitalism is not one made up of many sellers offering either uniform or differentiated prices. Rather it is a market of few sellers”. And in this way, he argued further, the notion of pervasive oligopoly has emancipated market analysis from the inadequate extremes of competition and single-firm monopoly (Galbraith 1949, 101). It also resulted—particularly following Means’ empirical work on rigid prices—in the discovery of "administrative as distinct from
market co-ordination" in the industrial heartland of the American economy (Ibid., 106; emphasis added). None of this is all that different from Galbraith and Dennison's work in MCBP a decade earlier.

Yet in the second half of the paper, Galbraith exhibited a distinct turnaround in his reasoning from that which guided his early advice to Dennison regarding the cause of the Depression. Tackling the nexus between imperfect competition and depression and unemployment head-on, as well as undertaking a "deeper questioning of capitalist institutions for which the depression provided a hospitable environment", Galbraith admitted that a prima facie case could be made for generalised monopoly as an explanatory variable in depression, "as entrepreneurial returns maximized (or protected) at the expense of production". But following the work of Chamberlin and Robinson, that put in more familiar theoretical terms the musings and intuitive opinions of Dennison as discussed in his 1943 paper above, Galbraith conveyed that restricted production, excess capacity and so, unemployed resources under imperfect competition became the rule rather than the exception. He argued further that "(n)ot many accepted this vulgar formulation", yet once outside the world of academia, imperfect competition was "undoubtedly credited with diagnostic and even therapeutic values which it did not, in fact possess" (Ibid., 109). This he explained thus:

Once oligopoly and monopolistic competition entered the picture, to prescribe the elimination of monopoly became tantamount to demanding a wholesale revision of the economic order. Economists, some sections of the press oddly to the contrary, are not given to such violent prescriptions. The highly restricted definition of pure competition, which the new theory brought into use, also helped make the competitive goal seem remote and impractical (Ibid., 111).

In a complete turnaround from his younger self, he concluded stating that "(t)o say that a flexible competitive economy has greater cyclical stability than an inflexible and monopolistic one", despite its appeal in the early 1930s even to himself, "is to say little that is useful. The real question is whether, given a rule of monopoly or monopoloid forms, stability is enhanced by increasing the area of competitive and flexible prices" (Ibid., 113). His verdict on this count was in the negative: "(t)he selection of the
inflexible prices as the devil of the piece seems...to have been based more on tradition than on the analysis of demand and income effects...and is clearly unfinished business" (Ibid., 114). This is virtually word-for-word what Dennison had said six years earlier.

Accordingly, and promoting a policy conclusion for which he later became noted, Galbraith argued against automatic antitrust action for cases of imperfect competition and further, that in some cases, far from inherently breeding "senescence and protection of the status quo", monopolistic or oligopolistic firms may actually spend more money on what later would be called R&D with positive externalities for the whole industry. This is a superior outcome to conditions approaching perfect competition (Ibid., 120). He concluded with a caustic attack on the administrative arm of antitrust action, the Temporary National Economic Committee (TNEC) and its most visible exponent of antitrust, lawyer Thurman Arnold:

In placing the antitrust laws in perspective, one has to conclude that they are not serviceable for many of the cosmic purposes that their ardent proponents hold sacred. ...No serious effort was made (by the TNEC) to provide an appreciation or rationale of large-scale enterprise and concentrated economic power as facts of contemporary economic life. ...We do live in an industrial community where oligopoly—or, more horrid word, private collectivism—is the rule. But strangely, we do live. Our dissatisfaction with our world is less the result of having known any other than of constructed a model of another economic society, the rationale of which we know and which is more companionable to our sense of elegance and order. We shall never find anything so agreeable in the world we have (Ibid., 120; 123; 127-128).

In the 1955 paper, entitled 'The Businessman as Philosopher', completed shortly after Dennison's death, Galbraith continued in this vein and provided a rationale for Dennison's association with MCBP despite the fact that the views expressed there were more reflective of Galbraith's than those Dennison held himself. In almost an apologia for his earlier views—keeping in mind his 'father figure' Dennison had died three years earlier—Galbraith urged that a careful distinction be made between the formal and ritualistic beliefs of business and those that actually govern private business behaviour. So though the formal creed commonly professed by businessmen was individualism and unfettered competition—coordinate with suspicion of and resistance to government intervention—he was of the belief that
the actual behaviour of the American businessman, however, suggests the existence of conflicting attitudes which, if less brave than those just outlined, are also a good deal more practical. It is doubtful if the United States or any other country could survive a rigorous application of [unfettered competition and individualism] and it seems certain that no business firm ever could (Galbraith 1955, 60-61).

Continuing on from the germs of insights contained in MCBP, he observed that the hallmark of competitive behaviour—price competition—was noticeably absent in the US industrial structure characterised as it was by a small number of large firms. The norm here, he continued, "with a consent so tacit that its existence often goes unrecognized" was for the avoidance of "uninhibited price competition" (Ibid., 61). Dennison, in fact, had questioned its existence and highlighted tacit cooperation as being the norm much earlier, in 1936, proving the confluence between the two thinkers:

We have bunked ourselves with an old theory which lasted for one hundred and fifty years because it applies to a growing world constantly pioneering in all its sections. It is the classical economic theory which has its valid elements, but as Keynes says, it is only a special case of a general theory which applies to a pioneering and growing world. We have taken the simple rule of prices and what prices will do. If you reduce them you will sell more, and if you increase them you will sell less. But in case after case price changes do not make any difference. We do not know anything about the effects of price changes. Prices, such as printed as market prices, are not true anyway, because prices are made secretly through all sorts of deals (Dennison 1936, 8).

Likewise, with regards to the freedom of entry and exit ideals, Galbraith observed that few businessmen worry about these matters because of the immense capital requirements for effective operation in established industries like steel, automobiles, aluminium or tobacco: "the dramatis personae of the characteristic American industry changes little from year to year" (Galbraith 1955, 61). And so, he concluded that

competition, in the American business faith, is no rigorous, classical idea toward which, however painfully, the economy must be made to conform. There is a singular—and no doubt quite sensible —unwillingness to die in its name. ...This means that the typical businessman is exceptionally subject to the restraints of organization and the authority of the large firm. All of his active life is lived in a hierarchy which, if less formal than that of a military organization, is no less insistent on its demands for team play and discipline. ...He is, in short, the creature of modern business administration in all its modern vastness and intricacy of human association. No one could be more hopelessly miscast in such a milieu than the swashbuckling individualist idealized by the formal creed (Ibid., 62-63; emphasis added).
These were issues he had tackled three years earlier in *American Capitalism* where he spoke of a convention or custom amongst businessmen outlawing price ‘warfare’ and the means by which they avert ‘disaster’ of going out of business (Galbraith 1952, 48-49). Dennison, as a practising manager and an accomplished author in the area of management or organisational economics (Dennison 1931; 1936), was no stranger to these ideas. He almost certainly played an influential role in Galbraith’s later appreciation of the behaviour of the modern business enterprise as being contrary to the received wisdom of the orthodox view.

Dennison’s influence can be gleaned further in Galbraith’s analysis both in *American Capitalism* (*AC* hereafter) and *The New Industrial State* (*NIS* hereafter). Turning firstly to *AC*, published in 1952, Galbraith again repeated the now familiar observation “that over an important sector of the American economy individual markets are shared by a small number of producers” (Galbraith 1952, 42) and extended earlier views regarding the “triumph” of big business and the apparent inefficacy of antitrust action and the “illusion” of a competitive business world: “(i)t is evidently possible to prosecute a few evil-doers; it is evidently not so practical to indict a whole economy” (*Ibid.*, 55). He criticised economists and policymakers for their pursuit of illusory competition and antitrust action, their preoccupation being less about interpreting reality than with building an ideal or model economic society (*Ibid.*, 15-17). Furthermore, he called for a more pragmatic recognition that imperfect competition was more realistic than supposing that “the very fabric of American capitalism is illegal” (*Ibid.*, 58), but more important, that it was more ‘workable’ and “that overall consequences, which in theory are deplorable, are often in real life quite agreeable” (*Ibid.*, 61).

In this context, Galbraith went even further and asserted that “there must be some element of monopoly in an industry if it is to be progressive”. He justified this on the grounds that because R&D and technological innovation is costly and subject to positive externalities and imitation, it will almost certainly be large, powerful firms that have the financial resources and the incentive to undertake “technical development”. The model of
pure competition, he argued further, is anathema to innovation for "the very mechanism which assures the quick spread of any known technology in the purely competitive market—and which was a strong recommendation of that market—eliminates the incentive to technical development itself...(M)arket power protects the incentive to technical development" (Ibid., 92-93; emphasis added).

And finally, turning to NIS, in words almost identical to those in MCBP and AC, Galbraith stated that "(a) vivid image of what should exist acts as a surrogate for reality. Pursuit of the image then prevents pursuit of the reality" (Galbraith 1967, 72). Unlike this blind pursuit of competition, Galbraith's overarching concern in NIS was to highlight that in an age of large, vertically and horizontally integrated corporations, far from being the controlling power in the economy, markets were increasingly accommodated to the needs and convenience of business organizations (Ibid., vii). Modern economic man, he argued, is no longer subject to the authority of the market.

Instead, we have an economic system which, whatever its formal ideological billing, is in substantial part a planned economy. The initiative in deciding what to be produced...comes from the great producing organization which reaches forward to control the markets that it is presumed to serve and, beyond, to bend the customer to its needs (Ibid., 6; emphasis added).

This was, indeed, a far cry from the young Galbraith that tutored Dennison. He argued further that the need for planning emanated from "the imperatives of technology" and innovation; that is, "from the time and capital that must be committed, the inflexibility of this commitment, the needs of the large organization and the problems of market performance under conditions of advanced technology, comes the necessity for planning" (Ibid., 16). With the rise of the large, innovative corporation, using the market is too uncertain to risk the massive capital outlays to develop and sustain organisational capabilities. Accordingly, the corporation "must replace the market with planning. ...(I)t must exercise control over what is sold...(and) what is supplied. ...Need must be elaborately anticipated and arranged" (Ibid., 24-25).15

Companies have a variety of strategies at their disposal for replacing the price mechanism as the coordinator of resources, particularly using vertical integration to transform bargaining transactions into internal transfers within a planning unit:

(E)limination of a market converts an external negotiation and hence a partially or wholly uncontrollable decision to a matter for purely internal decision (Ibid., 28).

And following Dennison’s intuitive understanding of non-price competition as a condition for ‘workable’ competition and controlling markets, Galbraith opined that vertically integrated corporations, particularly in their dealings with upstream suppliers, find it essential for effective planning to engage in “highly cooperative” relations and enter into long-term contracts with one another.

The option of eliminating a market is an important source of power for controlling it. …Each seller shares the common interest in secure and certain process; it is to the advantage of none to disrupt this mutual security system. ...(I)n an economy where units are large, firms can eliminate uncertainty for each other. This they do by entering into contracts specifying prices and amounts to be provided or bought for substantial periods of time (Galbraith 1967, 29-30).

In this way, in the industrial heartland of the American economy, markets have largely if not completely been supplanted by managerial-entrepreneurial hierarchies – what Galbraith called the technostructure.

Thus it is, Galbraith argued further, that markets are somewhat self regulating: “size and small numbers of competitors lead to market regulation” (Ibid., 30), which, combined with the exigencies of technological innovation, makes antitrust action somewhat self-defeating.

Size is the general servant of technology, not the special servant of profits. The small firm cannot be restored by breaking the power of the larger ones. It would require, rather, the rejection of the technology which since earliest consciousness we are taught to applaud (Ibid., 33).

The modern firm, if it is to generate and sustain competitive advantage over rivals and provide quality products at least cost, must be of the requisite size to “carry the large capital commitments of modern technology” and “large enough to control its markets”.

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The size of firms is inextricably related to planning not with monopoly power, "(a)nd for this planning—control of supply, control of demand, provision of capital, minimization of risk—there is no clear upper limit to the desirable size" (Ibid., 76). And so,

Technology and the companion commitments of capital and time have forced the firm to emancipate itself from the uncertainties of the market. And specialized technology has rendered the market increasingly unreliable. So the firm controls the prices at which it buys materials, components and talent and takes steps to insure the necessary supply at these prices. And it controls the prices at which sells and takes steps to insure that the public, other producers or the state take the planned quantities at these prices. So far from being controlled by the market, the firm, to the best of its ability, has made the market subordinate to the goals of its planning (Ibid., 110).

Again, it must be emphasised that this was a decidedly different conception of industrial organisation and competition than that which Galbraith attempted to adumbrate to Dennison some thirty years earlier.

**Conclusion**

This chapter explored the intellectual relationship between John Kenneth Galbraith and Boston businessman, Henry S. Dennison. Utilising their joint publications and the testimony of Galbraith in the guise of interviews and reminiscences, the chapter demonstrated first, that Dennison played a decisive role in Galbraith’s embrace of the initially heretical ideas of Keynes. Second, and related to this intellectual ‘conversion’, the chapter revealed that Galbraith’s incisive foray into the place and character of the modern, large corporation and the important strategic function of businessmen was, in important respects, a result of Galbraith’s association with Dennison in the late 1930s. It would seem that Galbraith, after setting out to convince Dennison of the efficacy of unfettered competition for regulating economic affairs, came to appreciate a decidedly different view; one that focused on the centrality of managerial hierarchy and innovation, and on the everpresence of the large, vertically integrated business organisation for planning economic activities internally and strategically.

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CONCLUSION

AN ORIGINAL AND INFLUENTIAL THINKER

From his earliest years in industry Dennison took an active intellectual interest in the better organization of business as a social science, both from its management and economic aspects. Indeed, he found it difficult in his mind to dissociate the two lines of approach...Dennison earned an enduring place among those who believe that through the social sciences, mankind can solve the problems of organisation which have been set by an unbalanced progress in the physical sciences.

Urwick and Brech, *The Making of Scientific Management*.

The central contention of the dissertation is that Henry S. Dennison was deeply influenced by, and made important contributions to the institutionalist approach to economics. It was contended that in his company policy of removing absentee owners and in his concern with the centrality in the labour process of human motivation, habits and customs, the intellectual impact of Veblen is salient. It was demonstrated that he was one of the first management or organisational economists concerned with the *rationale* and *inner logic* of business organisations. It was seen that in his relationship with leading institutionalists—Commons, Mitchell, Hamilton, Gay, and Galbraith—that he was an informed and articulate analyst of business cycles, labour economics and industrial democracy, organisational behaviour, tax reform and public spending, and of the corporation and management behaviour. He was also seen to make an intellectual impact on the economic thought of Commons, Mitchell and Galbraith; for Commons, Dennison’s management economics best encapsulated his own notion of ‘managerial transactions’ in a manner that had eluded earlier analysts such as the classical economists, Marx, Veblen and F.W. Taylor; he alerted Mitchell to a micro-based theory of the business cycle; and he played a pivotal role in Galbraith’s coming acceptance of Keynesianism and was influential in the latter’s foray into the functioning of the American economy under the direction of powerful corporations.

In his long and distinguished public service career, Dennison reached the highest levels of advisory service, working in various capacities for, the Wilson, Harding,
Hoover, and Roosevelt Administrations. As a scientific manager and one-time president of the Taylor Society, he held a lifelong appreciation of the need for economic planning to curb the excesses or failings of the market, initially at the level of the firm, but eventually at the level of the nation-state. This belief in the need for institutional intervention coupled with his influence on members of the institutionalist tradition makes Dennison’s economic analysis worthy of inclusion under the banner of institutionalism. The remainder of this chapter will be devoted to encapsulating the precise nature of Dennison’s institutionalism and his legacy as a contributor to the institutionalist ‘school’ of economic thought.

**THE NATURE OF DENNISON’S INSTITUTIONALISM**

Throughout the dissertation, a recurring theme has been that in his life and work, Dennison was motivated by a desire to make capitalism more “reasonable”. As a practising business manager and an institutionalist with a dynamic, non-determinist perspective of economic affairs, he viewed the economy and society (including government) inseparably and as an evolving process in constant need of institutional adjustment. Indeed, he was flexible in his thinking and revised his economic thought according to changes he perceived ‘empirically’ in the wider environment.

Over time, for instance, he came to reject the blind reliance on laissez-faire, free market coordination of economic affairs characteristic of the wider business community and the bulk of the economics profession. In this way, he came to accept that the state had a positive role to play in socioeconomic affairs – not merely as a referee or ‘night-watchman’, but as an important participant or player. This belief evolved from his initial concern with micro or industrial level state planning by exhortation or government insistence that business cooperate with labour and other stakeholders in their industry, to one that embraced state involvement in the macro arena to maintain aggregate activity through taxing and spending (fiscal) policy. He shared this vision with a minority of like-minded corporate liberals and institutionalist economists so that through their involvement in public life, these ideals filtered into the New Deal(s) and laid much of the ground for the ascent of Keynesianism and the welfare state.
In similar forward-looking, evolutionary terms Dennison also came to accept a
greater role for organised labour in macroeconomic decision-making, particularly via
collective bargaining which he staunchly advocated. Always a friend of labour, company
and craft unions thrived in the Dennison company under his presidency. But for much of
his life he struggled to accept industrial or 'outside' unions as the sole representatives of
employees' interests. With his own workers enjoying good wages, a share of profits and
company ownership, and a unique, consultative decision-making system, this is
understandable. Over time, however, Dennison realised that most of his fellow
manager/employers were not as progressive as himself and that if workers were to stake a
legitimate claim in the distribution of national wealth, collective bargaining under state
auspices was necessary, if not essential, if real incomes were to be maintained and
consumption spending in the aggregate was to be stimulated. In the same spirit, he sought
to protect workers from irregular/precarious employment and unemployment, he sought
to get to the heart of their motivations, and he acknowledged workers' right to organise in
whatever manner they desired, be it company or industrial unions. In other words, he
believed that because of the special nature of labour markets that a substantial degree of
institutional intervention was necessary if they were function efficiently and equitably.

Underlying these ideals was Dennison's conception of human nature that further
situates him in the institutionalist camp. In a manner akin to the 'founding fathers' of
institutionalism at the turn of the century, Dennison seriously questioned the mainstream
notion of hedonistic, 'economic man' and the primacy in economic behaviour of the
pecuniary motive. Through his everyday dealings with people and his introspective
writings on organisational psychology and human motivation, he opted instead for a
notion of homo sociologicus or 'social man' that possessed altruistic as well as self-
seeking motives, and who, being intrinsically a part of groups and organisations, was
'activated' by group and social motives as well.

To sum up Dennison's place in the institutionalist rubric, he possessed many of
the hallmark characteristics often utilised by historians of economic thought to situate
thinkers in the institutionalist tradition. As a thoughtful and articulate economic analyst he
was critical of mainstream economics, particularly as regards its ignorance of the inner workings of the corporation, and its cavalier treatment of the motives and impulses of economic agents. As a scientific manager, he shared the faith of institutionalists in the efficacy of economic planning for correcting market failure and maximising welfare. And like his institutionalist counterparts he was concerned with 'empirical' rather than assumed socioeconomic phenomena gaining a vantage to 'real world' economic and business affairs by being actively involved in public service and business life.

DENNISON'S LEGACY AS AN ORIGINAL AND INFLUENTIAL THINKER

The dissertation has demonstrated that Dennison was part-and-parcel of intellectual developments in economics and (scientific) management at the end of the 19th and into the 20th century that seriously challenged the mainstream or orthodox view of the economic world. Today in the late 1990s, the evolution of Dennison's economic thought appears to have foreshadowed a similar challenge being staged at the end of the present century that encapsulates a growing interest in history, institutions, business organisation, and a greater dialogue between economics and management scholars engendering a better understanding of business firms and the management of resources, both human and non-human.

In this context, the dissertation has demonstrated that Dennison made an original and influential contribution to the institutionalist field in areas of much contemporary practical importance. These areas include his managerial and organisational economics and his contributions to the 'profession' of business management; his labour economics and labour/human resource strategy; and his micro-based business cycle theory. Furthermore, his enduring legacy in the history of institutionalist economic thought is identifiable in his influence at an intellectual level on the thinking of Commons, Mitchell and Galbraith. In this manner, and to return to an earlier point, Dennison satisfies both of Lionel Robbins' criteria for contributions to a scientific field: he was an original thinker and he influenced others with his thought.
Management or Organisational Economics

Dennison's lifelong concern with organisational or management economics is particularly relevant today because the theory of the firm, as opposed to the traditional theory of markets pursued by the mainstream, is one of the real growth areas in contemporary micro theory as theorists attempt to come to terms with firm heterogeneity and long-lived competitive advantage and 'above-normal' profits. Indeed, the current 'conversation' between strategy scholars and industrial organisation and evolutionary economists that is lifting the lid off the "black box" of the firm, points to a promising reconciliation between the two disciplines that Dennison found so difficult to disentangle all his life.

With Veblen, Marshall, Knight, Schumpeter (and perhaps Coase, Edward Chamberlin, and Joan Robinson during the 1930s, although they remained wedded to marginalism), Dennison was among the first group of economic analysts to inquire into a rationale for the modern business firm that transcended a singular focus on the production process under conditions of perfect competition, perfect knowledge, and stable equilibrium. As a practising manager who utilised long-term planning horizons and nurtured forward-looking, long-term 'goodwill' or cooperative relations with his customers, competitors, and workers, Dennison found it difficult to accept the mainstream, textbook conception of how business was supposed to be conducted. He emphasised what 'managerial' theorists of the firm would later conceptualise as sales (market share) and growth maximisation as opposed to a singular pursuit of profit maximisation. And like Edith Penrose and G.B. Richardson in the resource-based or competence view of the firm, Dennison viewed business firms as collections of distinctive resources and services derived from these resources—knowledge assets or different ways of doing things—organised under an administrative or hierarchical framework. What was paramount, then, was that these resources were nurtured and protected by management for they were responsible for the firm's livelihood.

Another enduring contribution, and following on from the last point, was Dennison's theoretical investigation of the inner workings of the business firm as an
organisation of animate and inanimate assets or resources. As explored in Chapter Two, and of much relevance today, was Dennison's deep concern with the 'human side' of industry. In his concern with reducing labour turnover and unemployment, in devising and implementing effective personnel management, in his pioneering work on human motivation, group dynamics, goal congruence, worker empowerment, executive compensation, and in other novel aspects of his management policy, can be found issues of crucial importance to companies operating in the globally competitive 1990s. These are the very issues that today's organisational economists and strategy scholars are grappling with to explain heterogeneity and long-lived competitive advantage.

More important in the context of the central contention of the thesis, Dennison's original and insightful thought in the area of organisational psychology and non-pecuniary motives for human behaviour in an industrial context was seen to anticipate much of the later work of the so-called 'Human Relations School' commonly associated with Elton Mayo and his famous Hawthorne experiments. As seen in Chapter Two, Dennison's writings in the area pre-dated those of Mayo et al by almost a decade. It is also the belief of the current writer that Dennison, along with the Human Relations proponents and also the Oxford school of business economists such as Hall and Hitch and P.W.S. Andrews, laid much of the groundwork for the 'Behavioural Theory of the Firm' emanating from Carnegie-Mellon under Cyert and March and also Herbert Simon. In this way, Dennison's incisive analysis of the behavioural aspects of the firm set in motion an intellectual trajectory culminating in the important insights of Simon et al on bounded rationality and 'satisficing' behaviour.

Dennison was also a pioneer in personnel management practices. The Dennison company was one of the first in US corporate history to undertake 'scientific' selection, training and placement of labour resources that, today, is taken for granted under the rubric of human resource management. Increasingly today, as in Dennison's time, economists and strategy scholars/practitioners are coming to realise that the 'human side' of an organisation is just as important as the technological. For if it is appreciated, as Dennison clearly did, that business organisations are little more than repositories of
knowledge and learned routines managed by humans working in groups, then cultivating good relations herein is essential for the livelihood of any business.

Dennison's lifelong interest in ethics and professionalism in business management remains influential to students and practitioners of management today. The very idea of management as a professional and responsible body of individuals engaged in furthering the material and spiritual well-being of society was an ideal Dennison was unique in striving for his entire life. As a co-founder of the American Management Association, one-time president of the Taylor Society, and active in the US Chamber of Commerce Ethics Committee, Dennison spent much of his career exhorting his fellow managers to maintain 'goodwill' relations with each other as well with their customers and workers. As seen in Chapter One, Dennison's ethical and moral code underlay his progressive insistence on 'serviceability' to humankind. Management for Dennison was not solely about transforming inputs into outputs, as mainstream economists maintained, but involved a degree of 'social engineering' and responsible, forward-looking behaviour.

**Labour Economics and Relations**

This study of Dennison's life and thought also adds substance to the revisionist history of the scientific management movement that has been the object of much research amongst a wide range of social scientists over the last decade. In essence, the thesis highlights that scientific management as practised by Dennison, was not inherently autocratic and narrowly focussed and grounded on a simple, 'economistic' view of human motivation as is far too commonly asserted by labour historians and sociologists. In fact, and as reiterated above, Dennison's labour relations practices in the first two decades of the 20th century were found to predate many of the later advances accredited to the 'human relations school'.

At the centre of Dennison's labour management strategy was the company union or works councils. These 'in-house' unions existed side-by-side with the craft unions in the Dennison company to serve as a means of 'management sharing': that is, giving workers a degree of dialogue and consultation concerning vital company decisions. This
was supplemented with profit sharing and the sale of company shares to workers. Overall, what Dennison created at his company was a 'family' of workers and managers, all committed to the organisation's goals because all had a share in the company's ownership and all possessed a stake in the company's fortunes.

Supplementing company unions, in Dennison's labour economics, were industrial or outside unions. He believed that both were essential for collective bargaining purposes and for harmonious management-labour relations. Company unions best represented workers' firm-specific interests while industrial unions better represented their 'class' interests, particularly against powerful, recalcitrant employers. Company unions prevented class conflict because they highlighted a mutuality of interests amongst capital and labour. Dennison's *dualistic* approach to labour organisation was seen in Chapter Three to be influential in the economics literature and was a model subsequently embraced in Japanese and German labour management practice.

**Business Cycle Theory**

As noted in Chapter Four, Dennison was an important member of the business stabilisation movement of the 1920s that sought to regularise employment and output at the level of the firm over the normal course of the business cycle. In so doing, Dennison and other members of the movement concurred with the leading cycle theorist of the time, Wesley Mitchell, that cycles in business activity were inevitable but susceptible to conscious control and amelioration. Where Dennison and his colleagues differed from Mitchell was in their insistence that apart from macro policies for smoothing cycles —manipulating the money supply and public spending—much could be achieved in the microeconomy. Here they recommended that managers produce to inventory, engage in long-range and countercyclical capital-goods and advertising expenditure, and perhaps most importantly, that they stabilise employment and reduce costly labour turnover in order to sustaining purchasing power in the wider economy. This was a view that Mitchell eventually took on board.
In the context of the last point above and emanating from his pioneering personnel management techniques discussed above, Dennison's significant contribution (and an area of much confluence with the economics profession of the time as seen in Chapter Four) was his (and other business leaders') recognition of labour as a quasi-fixed factor of production. Stemming from a fusion of his ethical beliefs and sound business acumen, Dennison postulated that labour turnover was not, in fact, a signal of efficient use of resources as mainstream proponents of free markets maintained. In fact, he believed it was an inefficient and costly phenomenon both in human and monetary terms. Given that on-the-job training and education represented a largely irreversible and long-lived investment in human capital (sunk costs), it made sound business sense to Dennison that these investments should be nourished and sustained by reducing labour turnover as far as possible. Further, he believed that stable employment in the microeconomy translated into stable purchasing power in the wider economy. So it was, that during the Depression he cut his own salary rather than substantially reduce those of his employees. He was in doubt as to the economy-wide, macro consequences of micro, firm-level economic behaviour.

Macroeconomic Policy

A final instance of Dennison as an original and influential thinker in the institutionalist tradition concerns his thought on US macroeconomic policy. Throughout the dissertation, it has been demonstrated that Dennison was unusual in the business community in that the issues of greatest concern to him transcended the narrow preoccupation of most businessmen. Typically, businessmen fix their attention on issues of immediate relevance for their company or else with the industries in which their company is enmeshed. Not so Dennison who, as his public service record exemplifies, held a lifelong concern with the better organisation and functioning of the US economy.

As was seen in Chapter Five, up until at least the depths of depression in the early to mid 1930s, Dennison shared the belief of other progressive businessmen that the wider socio-economy would be best served if the antitrust laws were relaxed and the business
community were allowed to ‘cartelise’ the economy and balance demand and supply using
the ‘visible hand’ of planned coordination rather than relying on unfettered market forces.
Slowly but certainly during his tenure as a New Dealer, however, Dennison (and other
members of the scientific management movement) began to entertain a more positive role
for the state as an active participant national economic affairs and as leading the economic
planning process. He envisioned a type of advisory national planning commission in
partnership and with executive authority from Congress. He also came to accept the need
for organised labour to join in this envisioned process of corporatism.

At the same time, but in a more polished form owing largely to his intellectual
liaisons with J.K. Galbraith explored in Chapter Six, Dennison was also unusual in the
business community in his articulation of what has been termed in the thesis a ‘proto-
Keynesian’ policy of compensatory government spending and federal tax reform.
Economists and businessmen alike had called for greater public spending to stimulate
‘effective’ demand. But few deconstructed national income and economy-wide activity in
the manner that Dennison did. In this vein and as Galbraith has himself emphasised,
Dennison in some ways anticipated Keynes’ message in The General Theory. Dennison
perceived that the national income generated by production diffused into two distinct
streams: a stream flowing to people on more modest incomes that was likely to be spent,
the spendings stream, and a stream flowing to businesses and more affluent people which
was likely to be saved, the savings stream. He believed that cyclical downturns were the
result of the non-spent (saved) income in the savings stream (later termed a leakage) and
the heavy tax incidence on consumption as having a depressing effect on aggregate
spending and purchasing power. Accordingly, he was a staunch advocate of shifting the
tax burden from consumption flows to savings flows and of progressive income taxation.

Dennison’s belief in the primacy of planning, though seriously challenged by the
recent demise of Soviet style planning, is also of relevance today. As Stabile (1993) has
highlighted in another context, the failure of the type of planning envisioned by Dennison
and other New Dealers to evolve in the US can be attributed to a problem of ‘market
failure’ in the quest for effective ‘planners’, and to an historical distrust of government

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involvement in economic affairs. Likewise, apart from brief stints during WWI and the NRA period, there has always been a serious lack of consultation between government agencies and interest groups on public policy in the USA, in contrast to European or even Australian public administration. In other words, the type of consultative, bottom-up planning espoused by Dennison and other liberals was never really given a chance to ‘get off the ground’ in peacetime, being dealt some serious blows during the McCarthyite, Cold War era, and presently with the collapse of Eastern European communist planning.

**Intellectual Legacy: Dennison’s Influence on Other Institutionalists**

Perhaps the most important outcome of the dissertation is the exposition of Dennison’s formative influence on the economic thought of some of the more widely known institutionalist economists, John R. Commons, Wesley Mitchell and John Kenneth Galbraith. Turning first to Commons who, with Veblen and Mitchell, is considered one of the founders of (old) institutionalist economics. As conveyed in Chapter Three, Commons made Dennison’s acquaintance through their mutual membership of the National Civic Federation and their ties to the American Association for Labor Legislation. Commons visited the Dennison plant at Framingham, Mass. in 1919 and subsequently wrote glowingly both of Dennison’s company practice in engendering ‘industrial goodwill’ and ‘humanising’ scientific management, and of his management economics. Moreover, in both Dennison’s practice and in his economic thought, Commons perceived an intellectual continuum from Marx to Veblen, from Veblen to F.W. Taylor, and from Taylor to Dennison, in terms of an understanding of the labour process, and the role of what Commons called “managerial transactions” in this process. This is a crucial point in the context of the central objective of the thesis, for it represents an explicit recognition by one of the ‘founding fathers’ of institutionalism of Dennison’s contribution to this ‘school’ of economic reasoning.

In his monumental *Institutional Economics* (1936), Commons stated his belief that Dennison’s management economics—his emphasis on personnel management, management sharing and works committees—supplemented the ‘commodity’ and
‘machinery’ theories of labour held by the mainstream economists and scientific managers respectively, and represented a positive means of engendering ‘industrial goodwill’ or positive organisational culture. Commons was of the view that Dennison had solved the problem of the ‘managerial transaction’ inherent in the labour process, where Marx, Veblen, and Taylor before him had failed owing to their excessively technologically-deterministic emphasis on the production process. He believed that they failed to appreciate in the way Dennison did, the human element and the place of authority in the ‘managerial transaction’ between legal superior and inferior.

As for Mitchell, when exactly he and Dennison first met is unclear. However, and as was seen in Chapter Four, following President Harding’s Unemployment Conference in 1921, the two corresponded widely particularly regarding their shared concern with cyclical fluctuations in the US economy. So impressed was Mitchell with Dennison’s micro-theory of business cycles, that in his capacity as president of the American Statistical Association, he arranged for Dennison to read a paper before that group in a joint conference with the AEA in 1922. In this context, Dennison was in some way responsible for Mitchell’s evolving appreciation of a micro-based theory of business cycles to supplement his own decidedly macro view. Mitchell came to accept that there was much that could be done in ironing out the extremes of cyclical fluctuations at the level of the firm. Drawing on Dennison pioneering efforts, Mitchell used his authority as the nation’s leading theorist in the field to exhort managers to study the cycle and plan their production schedules accordingly. He urged remedies tried-and-tested by Dennison such as countercyclical construction and advertising spending, unemployment insurance, and new product/line launches during downturns. Dennison’s influence on one of the progenitors of institutionalism bears further witness to his contribution to this tradition of economic theorising.

And finally, it was established at length in Chapter Six that Dennison played a key role in the intellectual ‘conversion’ of the young Galbraith away from the orthodoxy on which he, like the majority of academic economists, was reared. In their debate over the cause of the 1930s Depression, Dennison advocated “Keynesian” ideas which Galbraith
initially rejected but who, after reading the *General Theory* and studying at Cambridge under Hahn, Sraffa, and Joan Robinson, came to embrace. More importantly, it was his exposure to Dennison’s attention to the corporation and the behaviour of actors therein, that shaped Galbraith’s ensuing research agenda. Following Dennison’s death, Galbraith embarked on his incisive analysis of US corporations, management structures, and the role of unions and consumers in the modern economy. Accordingly, and without his full assent, he has been widely recognised as one of the formative figures in modern or ‘neo’ institutionalist economics. The fact that Dennison played a part in the formative development of Galbraith’s thought is further testimony to Dennison’s place in the institutionalist rubric.

In sum, Dennison must be remembered as a man who personified the Taylorist philosophical creed of science in service to society. He was an important, though largely unknown, historical actor in the development of US society. His company was the first to establish private unemployment insurance in American business chronicles. He served in the unprecedented consultative planning bodies during WWI and the Depression. He was a president of the Taylor Society and helped found the American Management Association in a bid to inculcate ethics and professionalism amongst businessmen. No other business man, therefore, more completely fitted the description of “eminent industrialist”.

Furthermore, in the first half of this century, Dennison had something to do with virtually every important development in the evolution of management and institutionalist economic thought. He was influenced by and made a lasting impression on the leading thinkers in the institutionalist economics tradition. Whilst his thought, published widely in monographs alongside the leading economists and in the leading journals of the time, was both influenced by and influential on the wider economics community as well. In this manner he made an original and influential, but hitherto unexplored contribution to economic thought, most particularly to institutionalism.
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