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Activist management : the institutional economics of Henry S. Dennison

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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.\(^1\) 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 Institutionals, 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.\(^3\) Analysing 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.

4
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

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4 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.

5 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,
should be 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.