

THE MANAGED ECONOMY. By Michael D. Reagen. New York: Oxford University Press, 1963. 288 pp., Bibliographic Notes, Index. \$6.00.

MICHAEL D. REAGEN'S *The Managed Economy* expresses a recurrent theme of the present decade's political and economic literature: the need for more effective public control over the country's economy.<sup>1</sup> The author expounds at great length the need for responsible government action to reestablish our waning political and economic democracy. With the increasing concentration of power in the nation's giant corporations, business management, insulated from accountability to the public, is becoming a dangerously irresponsible center of social control.<sup>2</sup> Mr. Reagen strikes at every phase of the businessman's activity; nothing is immune from his scathing disapproval. This attack is then used by the author to justify the revolutionary changes in our traditional political system of checks and balances that he proposes in his final chapter.<sup>3</sup> There, among other observations, Reagen notes that the present interrelationships between Congress and the President are ineffectual and require radical change.<sup>4</sup> The stakes are too great for our nation to be saddled with a never-ending stalemate, resulting from partisan haranguing and debate. Thus the need exists, the author feels, for a shift of power to the Presidency in all vital areas, which would give power in those areas approximate to that which the Executive now enjoys in national security matters.<sup>5</sup> Congress would then possess the veto power and would sit principally as a reviewing body for the President's policy decisions.<sup>6</sup>

Unfortunately the author merely whets the reader's appetite with these concluding suggestions for change in our existing political system. Rather than deal in depth with these problems and proposals the author spends the bulk of his words attacking American big business in a way which seems to bear little relevance to the political issues raised in his last chapter. It almost seems as if the author changed the objectives of his book while in the process of writing; indeed, his efforts might better have been concentrated in political, rather than corporate, matters. For in justifying what he deems to be the needed changes in the political power structure and processes of policy formulation, Reagen presents a distorted and quite gratuitous account of the evils of corporate power.

Throughout the work he asserts the ineffectiveness of the anti-trust laws in restraining concentrations of corporate power. In fact he depicts all the giants of American industry as possessors of the most blatant monopoly powers.

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1. Preface, p. vii.

2. Section II, "The Public Role of the Private Corporation," pp. 73-156.

3. Chapter 12, "Democratic Politics for the Age of Planning," pp. 251-67.

4. Pp. 262-65.

5. Pp. 251-67.

6. P. 264.

The present extent of oligopoly . . . already means the existence of a quite sizable degree of market power, that is, power to determine how many of what kind of product will be made available at what price.<sup>7</sup>

From this Reagen deduces that oligopolistic firms have complete control over their prices and over their profits as well.<sup>8</sup> Evidence of this unrestrained monopoly power is derived from what Reagen calls the "burgeoning phenomenon of profit 'targets' in large corporations."<sup>9</sup> The inferential gap that links profit targets with monopoly powers is indeed a substantial one. The fact that a corporation establishes an objective for return-on-investment evidences what Reagen should consider desirable planning rather than a monopoly power over the market. In fact the example used by the author refutes his very point. He states that General Motors' target rate is 15-20 per cent; yet in the years 1948-55 its rate of return averaged 25 per cent.<sup>10</sup> General Motors could establish any target it wished, but its rate of return was ultimately still dependent on its market performance, albeit a most successful performance in the post-World War II period. Reagen's reliance on the profit target as evidence of the monopoly power of the oligopolistic firm thus seems highly unwarranted.

Other evils of corporate power which Mr. Reagen finds are also the result of fallacious reasoning. He seeks to illustrate the disappearance of the market system with an example of vertical integration by an automobile producer with wholly-owned steel mill and iron ore subsidiaries.<sup>11</sup> Because of vertical ownership, Reagen contends, the parent need not bargain through the market for its supplies; rather, the producer sets the prices it is to pay for its subsidiaries' supplies.<sup>12</sup> But this illustration is no evidence of the vertically integrated firm's insulation from the market system. For when the auto producer uses its own subsidiary's steel in the production of finished products it is absorbing a cost for that material equal to what could have been obtained for the steel had it been sold to another manufacturer of automobiles. The cost, measured by the market system, equals the price which other purchasers would pay for the same material.

To ameliorate these purported evils of market power the author has few concrete suggestions other than his plea for greater governmental control through presidential power. He does mention some additional possibilities without discussing any in depth. For instance, he toys with the idea of providing national charters for the two hundred largest corporations; the federal government could then use the charters to control the scope of corporate activity.<sup>13</sup> If the charter is to be an effective control device, however, the gov-

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7. P. 76.

8. *Ibid.*

9. *Ibid.*

10. *Ibid.*

11. P. 15.

12. *Ibid.*

13. Pp. 239-44.

ernment would have to substitute its judgment for that of the corporate managers in every significant decision — a substitution which not only seems anti-pathetic to a free and pluralistic society but also one which is of dubious value in an economy in which corporate competition attracts the bulk of managerial expertise. The states long ago realized the futility of such an inflexible approach. Reagen would also break down concentrations of corporate power through rules of per se illegality for conglomerate mergers<sup>14</sup> and the dismemberment of all corporations that obtain twenty per cent market control over any single product.<sup>15</sup> No suggestions are offered as to a solution for the often inscrutable problem of defining the relevant product market. Nor does Mr. Reagen mention the loss in efficiencies that would result from this series of proposals. Failing to recognize that the anti-trust laws are committed to the goal of enhancing competition so as to pass cost savings to the consumer, Mr. Reagen proposes increasing the number of firms in a market without inquiry as to the effect on competitive efficiencies and resultant costs to consumers. Certainly the author cannot be singled out for criticism in this area, however, for this same sort of reasoning has been responsible for much of the muddled rhetoric in leading anti-trust opinions.<sup>16</sup>

The reader of *The Managed Economy* may also find a lack of objectivity in the author's summary attack on the internal decisions of powerful corporate managers — especially in his discussion of compensation of management.<sup>17</sup> Although it is indisputable that many corporate managers are overpaid by any set of standards, it is still largely true that executive compensation reflects the competitive activity in the market for managerial talent. In an atmosphere of arm's-length bargaining, the price a corporation is willing to pay for an executive — whether it include deferred compensation, stock option, or share of profits — reflects the estimated value of that individual to the corporation as determined by officers and directors. It is to the stock option method of compensation that Reagen points for particular censure.<sup>18</sup> Admittedly many aspects of the stock option phenomenon are open to attack — particularly in the realm of taxation — but the aspect focused upon by the author is clearly not one of these. Reagen feels that when an option is exercised at a price below the market the corporation is injured in being deprived of the larger sum realizable by selling the shares publicly.<sup>19</sup> Yet as long as the corporation can still issue additional shares at the market price it does not sustain any in-

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14. P. 240.

15. *Ibid.* Reagen does make a distinction between primary and secondary markets, but his relevant percentage remains 20%.

16. For an interesting and most critical account of the trend of anti-trust doctrines away from competition, see Bork & Bowman, *The Crisis in Antitrust*, *Fortune*, Dec. 1963, p. 138.

17. Pp. 103-04.

18. P. 103.

19. *Ibid.*

jury. The option, quite naturally, may have a positive or negative effect on shareholders' interests, depending upon the size of the option and of the spread between market and option prices, and upon the way in which the market judges the relative merits and detriments of the option and its recipient, but the corporate entity is in no way injured when capital is added to the corporate resources at less than the market price per share.<sup>20</sup>

Mr. Reagen also vigorously objects to the right of management to determine the allocation of after-tax profits.<sup>21</sup> Such profits "belong" to the stockholders who should allocate their investment returns as they wish. This contention seems totally to ignore both the need for corporate expansion and the impact of the tax laws. And once again, management dividend policy is subject to market scrutiny. If investors find the policy of a given firm unfavorable they will be reluctant to invest their resources with that firm's management. As a result, the management either must alter its policy or face the elimination of a market for its corporate securities.

Throughout his work Mr. Reagen shows great concern for the economic impact of major corporate decisions. He advances the presence of this impact as justification for an increasing governmental role in economic planning, a thesis which he supports by illustration of the cyclical effect of corporate decisions.<sup>22</sup> National Widget Company, invests \$6 million per year to meet increased demand. In a year of national recession National Widget acts in its best interests by eliminating new investment in light of anticipated lessening of demand. From the corporate viewpoint, National has acted rationally; from the viewpoint of the national economy it has compounded an already deteriorating situation. This model clearly demonstrates the need for governmental action to assure and stabilize desirable economic growth. Such a thesis should hardly prove shocking to any student of American economic history; since the Great Depression none but the die-hard Spencerians have seriously advocated total governmental non-interference. Yet in agreeing with Mr. Reagen's hope for an increasing sophistication in government economic activity one need not adopt his pessimistic outlook on the exercise of corporate power. Except in the true monopoly situation — and hopefully the anti-trust laws will rid the economy of these — corporate managers are always accountable to the public through the market place, which is still the most automatic and effective check on corporate activities. There corporations are judged by their ability to earn profits. It is this impetus to limit its activities to energetic profit seeking that allows government planning to be most effective because it allows government

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20. Commentators and judges alike have haggled endlessly on this controversial issue. The court decisions reflect a wide disparity in reasoning. See, *e.g.*, *Bodell v. General Gas & Elec. Corp.*, 15 Del. Ch. 119, 132 Atl. 442 (1926). And for more recent discussion of the same problem, see *Hooper v. Mountain States Sec. Corp.*, 282 F.2d 195 (5th Cir. 1960); *Pettit v. American Stock Exch.*, 217 F. Supp. 21 (S.D.N.Y. 1963); *Kremer v. Selheimer*, 215 F. Supp. 549 (E.D. Pa. 1963).

21. P. 105.

22. Pp. 99-103.

to predict corporate activity with maximum assurance. Only when the possessors of corporate power are encouraged to weigh non-profit considerations do government's predictive tasks become difficult and its subsequent counteractive policies become ineffective.<sup>23</sup>

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23. For a particularly relevant comment on this thesis, see Rostow, *To Whom and for What Ends is Corporate Management Responsible?*, in MASON (ED.), *THE CORPORATION IN MODERN SOCIETY* 46, 69-73 (1960).