Lecture I. The Turn against Institutions
Lecture II. What Transactions Can't Do

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In 2003 he became dean of the Graduate School of Journalism at Columbia University. During Lemann's time as dean, the Journalism School launched and completed its first capital fund-raising campaign, built a student center and a digital media center, started two new professional degree programs, and launched significant new initiatives. He stepped down as dean in 2013 and returned to the Journalism School's faculty.

He has published five books, most recently *Redemption: The Last Battle of the Civil War* (2006). He has written widely for such publications as the *New York Times*, the *New York Review of Books*, the *New Republic*, and *Slate*; worked in documentary television; and lectured at many universities.

Lemann has served on the boards of the Authors Guild, the National Academy of Sciences' Division of Behavioral and Social Sciences and Education, the Academy of Political Science, the Society of American Historians, and the Russell Sage Foundation and is a member of the New York Institute for the Humanities. He was elected a fellow of the American Academy of Arts and Sciences in 2010.

LECTURE I.
THE TURN AGAINST INSTITUTIONS

First, of course, I want to thank you for the invitation to give these lectures. It's an honor to be a Tanner Lecturer, especially for a journalist. Also, as I suppose is often the case for Tanner Lecturers, the invitation, once accepted, becomes an assignment, and therefore a much-needed prod to work up what had previously been compelling but inchoate thoughts rattling around in one's head into a more coherent form. I have been grateful to have an external form of discipline to make me do that.

I cannot remember the exact date or purpose, but I do remember very well that a visit to Stanford made all the difference with my last published book, *Redemption*, an account of the end of the Reconstruction period in American history. I came to Palo Alto and presented the idea for the book to a murderer's row of professors from a variety of disciplines, including former president Gerhard Casper, who as some of you know is a legal scholar of Reconstruction. The combination of encouragement, useful criticism, suggestions for further inquiry, and, frankly, the sense that having spoken at Stanford represented a spring off the diving board and so committed me to finishing the book was a godsend. I hope that a few years from now, I'll be able to return and say the same thing about the connection between these lectures and my next book.

In the fall of 2012, assigned by the *New Yorker* to profile Mitt Romney, the Republican nominee for president, I came up with a formulation that may be a little glib but one that, I believe, captures something important about American society in the last half of the twentieth century. I wrote that if Mitt Romney's father, George, who was chairman of American Motors and then governor of Michigan, represented the mid-twentieth-century type that William H. Whyte, in 1956, memorably named the Organization Man, then Mitt Romney represents a successor type, which I called Transaction Man. (This was the title the *New Yorker* used for the profile.) What I meant was that in the national culture, what was considered the ideal use of top talent, especially but not only in business, shifted from managing a large organization to entering high-stakes situations, as an analyst, an adviser, or an investor of capital (Mitt Romney performed all of these functions as head of Bain Capital, the private-equity branch of a management consulting firm), and engineering a consequential transaction before moving on to the next situation.

I'm sure everyone here can immediately think of examples of this shift within the circle of one's personal acquaintance; in the aggregate, I'll argue, the shift entails our having changed, not entirely consciously, our way of thinking about how to solve social, political, and economic problems. The Organization-to-Transaction shift has shaped and been shaped by significant changes in the balance of power within American society, especially toward freely moving investment capital (and those who manage and direct it) and away from the congeries of large, established organizations that seemed to most observers in the middle of the twentieth century to dominate the American landscape (and those who manage and direct them). I will offer some ideas about why, how, and when this shift occurred. (I don't think it was inevitable, because history is contingent, not teleological.) Those will be mostly in the first lecture.

And I will also offer some thoughts, mainly in the second lecture, about the present-day effects of the shift and how we ought to think about them. In particular, I would like to present for discussion and argument, at least, the idea that the shift from an institutional to a transactional perspective may be significantly responsible for the substantial rise in economic and social inequality that has been one of the main changes in American society over the past generation. As economists Frank Levy and Peter Temin put it in a 2007 paper, the severing of the historic connection between productivity increases and broadly shared prosperity can be explained partly by "the collapse of the institutions of the post-war years." A society dedicated to disassembling, disaggregating, and disintermediating existing structures and arrangements, and to relentlessly solving for economic efficiency, tends to enhance inequality; a society dedicated to maintaining and negotiating among and within institutional structures tends to decrease it.

It's probably stating the obvious to say that in two short lectures about a very large subject that I am just beginning to explore, I am necessarily going to be less than comprehensive overall and less than thorough on each specific point. I am immensely grateful for the interactive nature of this lecture program and, in advance, for the comments and suggestions I will get. I'm sure I will go home at the end of the week with this project in better shape than it was when I arrived.

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Let us begin at the exact midpoint of the twentieth century with two ambitious books by prominent liberal academics, each of which aimed, in its own way, to create a broad-canvas portrait of the state of this country.

These are *The Lonely Crowd*, by David Riesman, published in 1950, and *The Governmental Process*, by David Truman, published in 1951. Riesman's interest was mainly psychological and Truman's mainly political, but they still make for a useful matched pair, because the two authors' views were so substantially different in ways that pertain to my topic.

I would guess that everybody here has heard of Riesman's book but that not everyone has heard of Truman's. Truman was a political scientist at Columbia University, later provost there, still later president of Mount Holyoke College. *The Governmental Process* was produced during the high-water mark of the pluralist theory of American politics—that is, the idea that the way to understand our democracy is as an ongoing, ever-changing, contentious, but essentially benign interaction of interest groups within a system of rules. Pluralism was normative, as well as descriptive: the idea was that this never-ending bargaining process among groups, as long as it was conducted fairly, made for a better society than one organized around someone's idea of what would be best for everyone. American academic pluralism's sacred text was Arthur Bentley's peculiar, brilliant 1908 classic, *The Process of Government*, written from a remote Indiana farmhouse, which Bentley called "an attempt to fashion a tool" for understanding politics. Truman's book, beginning with the title, was a conscious homage to Bentley and an attempt to use the tool that Bentley had fashioned to understand, and to improve, the American political system as it was then.

It would not be at all fair to present Truman as a Dr. Pangloss who had come to tell us that all was right with the American system. It's important to keep in mind that the midcentury moment was a profoundly scary one, with the memories of the horrors of the Depression and the Second World War still fresh and the Korean War and the Cold War in full swing. Truman was, however, a believer in the American constitutional system; in its principal author, James Madison; and, especially, in the pluralists' version of a founding document, Madison's *Federalist No. 10*. He believed that it was useless for anyone seeking to understand the workings of a society to study the individual, because, as he put it, and you'll have to excuse the 1950s-era gender reference, "Men, wherever they are observed, are creatures participating in those established patterns of interaction we call groups." Indeed, he wrote, "We do not, in fact, find individuals otherwise than in groups."

No one belongs to only one group, and groups vary greatly in their size and degree of organization and activity, but it is nearly inevitable that as a group becomes significant it will enter politics to seek changes in government. (Pluralists were not into honoring "civil society" as a realm separate from and superior to politics, as many people do now.) There is no one discernible national interest or public interest, except as a comforting illusion, and there is no way to achieve the long-standing (even back then) dream of good-government reformers of extirpating lobbyists from politics and government. The only way to understand our society and politics is by looking at groups interacting, in complex, shifting, often rough-edged ways. Even a large bureaucratic institution like a government agency or a corporation can be understood only as a group, or a collection of groups, constantly struggling for advantage with other groups in society.

For David Riesman, by contrast, the unit of analysis was not the group but the individual, and, although he presented himself as being merely a dispassionate reporter of findings, it's hard to miss his disappointment, even alarm, at what he had found: that the character of the American middle class had recently shifted from being "inner directed" to "other directed." Inner directedness corresponds roughly to Max Weber's notion of the Protestant ethic: people are instilled by their parents and their culture with a deep set of motivations and values that are internalized strongly enough to power them through life. Other directedness is an orientation toward pleasing peers, toward being like other people—although that is an ultimately unfulfilling and empty pursuit (hence the title Riesman chose). Inner-directed people are focused on production, other-directed people on consumption. For the other directed, Riesman asserts, "the currency into which all values tend to be translated is no longer money but appraisal by the peer group"; they cannot escape "the insatiable force of this psychological need for approval."

This shift of the American character from inner directed to other directed went along with, and may have been a result of, the rise of a permanent-seeming structure of large institutions that had come to dominate American life. A shopkeeper could be inner directed, but an employee of General Electric had to be other directed. I read Riesman and his followers as being explicitly hostile to institutions on the grounds of their corrosive effects on the individual character. To David Truman, who considered individuals to be of no interest to those trying to understand the workings of society, it was axiomatic and obvious that "most individuals in any cultural setting find it intolerably painful not to be accepted by the groups in which they move or hope to move. A measure of conformity is the price of acceptance." But to Riesman, groups are essentially malign, and conformity is an existentially threatening national sickness. "Is it conceivable," he asked plaintively toward the end of *The Lonely Crowd*, "that these economically privileged Americans will some day wake up to the fact that they overconform?" He didn't seem to be optimistic that the answer might be yes. Riesman's discussion of American politics in *The Lonely Crowd* focused on the idea that with the rise of the other-directed type, with its overwhelming orientation to pleasing peers rather than to considering questions of morality, government has become dominated by what he called "veto groups." To Truman, of course, veto groups are not, as he sarcastically put it, a "typhoid bacillus . . . that must be eradicated if society is to develop and prosper." They *are* the political system.

I am going to spend a good deal of time in these lectures discussing the large publicly held business corporation, though more as a social and political institution than an economic one, so it's worth pausing for a moment to note that for American public intellectuals in 1950, the modern corporation was a highly noteworthy, even strange-seeming, institution that had rather suddenly become dominant in the tableau of American life. Big business had appeared on the American scene many years earlier, during the late nineteenth and early twentieth centuries, but people understood it in terms of tycoons such as John D. Rockefeller and Andrew Carnegie and of the trusts they had created. What seemed new in 1950 was that these businesses had taken on a permanent bureaucratic character. Millions of Americans would now be spending their entire careers working at a single corporation, some wearing a white collar, others wearing a blue collar. Salaried professional managers who had risen through the ranks, rather than entrepreneurs, inventors, tycoons, or robber barons, would be in charge. Taken together, these corporations now dominated the American economy. All of this seemed to amount to a new fundamental scheme of organization for our society, quite different from the agrarian, craft, or local-business schemes that had preceded it.

For David Truman, the corporation had grown to the point that, even though it might act as an interest group in Washington, it was itself a small society with a multiplicity of interacting groups, including managers, stockholders, and workers. Each of these groups would develop its own organizational structure, so that, instead of managers dealing with their workers directly, executives would negotiate more formally with labor union leaders. To Truman, a prolabor liberal, this was by no means an ominous development. The publication of his book coincided almost exactly with the signing of what Daniel Bell, then a thirty-year-old writer for *Fortune*, dubbed "the Treaty of Detroit," the May 1950 long-term contract negotiated by Charles Wilson of General Motors and Walter Reuther of the United Automobile Workers on behalf of their organizations. Today it's almost unbearably ironic that the treaty was received as the harbinger of a wondrous new American social compact, since both General Motors and Detroit have recently gone bankrupt and both the corporation and the union are far smaller today than they were then—but that *is* how it was received. Not very much earlier, the UAW and the automakers had been literally at war, with clubs and guns; now, GM had bought itself five years of labor peace, and the autoworkers had gotten guaranteed annual cost-of-living increases, pensions, and medical coverage. As historian Nelson Lichtenstein put it, the treaty "offered a section of the working class—largely white, male, and unionized—economic security and social benefits that would double their real incomes within a generation." If you were a pluralist like Truman, here was proof that pluralism could produce a good society. (And if, sitting here in Palo Alto in 2014, you're inclined to think of the Treaty of Detroit as representing everything wrong with the late-twentieth-century American economy, hold the thought; I'll address it later.)

As for David Riesman, he, like many liberal, and even radical, intellectuals of the time, simply wasn't very concerned with the economic security and well-being of the average American. That was partly because the country was in such vastly better shape than it had been during the Depression that material need no longer seemed like a pressing concern (and economic inequality was decreasing), partly because of his all-consuming preoccupation with the menace of conformity, and partly because the American corporation seemed to be an unstoppable, eternally growing powerhouse, immune from meaningful competition and certain to continue spreading prosperity across the land. In an other-directed, consumption-obsessed society, corporations had it within their power simply to make more products and then to persuade people that they needed them in order to keep up with the Joneses. Inside the corporation, this was a time when executive compensation was much lower and tax rates were much higher than they are today, so Riesman found it safe to assume that successful management was all about building up one's personal status and encouraging other direction among one's employees, not about making money for the company or for oneself. All in all, he declared, rather than production, "*people*, therefore, becomes the central problem of industry."

If you imagine Truman and Riesman as intellectual contestants, it's clear that Riesman won. Within academic political science, pluralism reigned for at least the decade between the publication of *The Governmental Process* in 1951 and the publication of Robert Dahl's *Who Governs?* in 1961, but these works did not reach a wide public, and the 1960s brought influential academic attacks on pluralism, which I will discuss in the next lecture. *The Lonely Crowd*, on the other hand, was never deeply respected by sociologists—it makes no real effort to document the shift from inner directed to other directed with methodological rigor—but it struck a chord. Riesman and the book appeared on the cover of *Time*, back when that was a supremely high accolade. Although it is in no way breezy or accessible, *The Lonely Crowd* was a best seller. And Riesman's basic framing device—conformity as the leading national menace, institutions as its bearer, individualism as the remedy—became one of the reigning liberal ideas of the 1950s, and in many ways far beyond.

Intellectual and cultural works elaborating on the theme of conformity as a national menace, and identifying institutions, especially corporations, as its main bearer, flowed in a great torrent: think of novels such as Richard Yates's *Revolutionary Road* and Sloan Wilson's *The Man in the Gray Flannel Suit*, or movies like *Invasion of the Body Snatchers* (if you understand it as a parable) and *Imitation of Life*, or psychological experiments meant to demonstrate the horrors of conformity, like the ones Stanley Milgram described in his book *Obedience to Authority* or the mock prison experiments that Philip Zimbardo conducted here at Stanford. (These psychological experiments make for a nice set of bookends with the Hawthorne experiments conducted by industrial psychologist Eldon Mayo and his associates at a Chicago factory in the 1940s, when institutions were still esteemed and the idea that the individual was in peril had not yet caught on; they sought to demonstrate that a feeling of group membership made people more productive.) In this body of work, the burgeoning American suburbs were also frequently identified as a seedbed of conformity, and of course they were presumably where corporate managers lived. I'll go into a little detail about just a few of these works, as a way of bringing to the surface the argument they were making.

White Collar, by Columbia sociologist C. Wright Mills, was published at the same time as *The Lonely Crowd* and *The Governmental*

Process. Though Mills was proudly radical, rather than liberal, *White Collar*'s vision matches *The Lonely Crowd*'s almost exactly. Mills was more openly nostalgic than Riesman for a bygone America dominated by small-scale, independent, owner-operated businesses and more melodramatically dismissive of the corporate system that he saw as having replaced it. "The decline of the free entrepreneur and the rise of the dependent employee on the American scene has paralleled the decline of the independent individual and the rise of the littler man in the American mind," he declared. Although the shift had been an economic one, "the problems that concern us," Mills asserted, "border of the psychiatric." Like Riesman, Mills was not very focused on the economic condition of the ordinary American, which he too treated as a solved problem, and like Riesman he was scornful of "pressure groups" that negotiate better economic conditions for their members. The real problem, in his view, was that the United States had become a nation of "cheerful robots." I can't resist quoting one more passage, just to give you more of the flavor. This is about white-collar employees of corporations:

> You are the cog and the beltline of the bureaucratic machinery itself; you are a link in the chains of commands, persuasions, notices, bills, which bind together the men who make decisions and the men who make things; without you the managerial demiurge could not be. But your authority is confined strictly within a prescribed orbit of occupational actions, and such power as you wield is a borrowed thing. Yours is the subordinate's mark, yours is the canned talk. The money you handle is somebody else's money; the papers you sort and shuffle already bear somebody else's marks. You are the servant of decision, the assistant of authority, the minion of management.

A few years later came William Whyte's *The Organization Man* (1956), which I mentioned earlier, and John Kenneth Galbraith's *The Affluent Society* (1958). Whyte's book is an expansion of a *Fortune* article on life in the Chicago suburb of Park Forest, built out into another lament about the state of the American character. His title characters, he tells us, "are the ones of our middle class who have left home, spiritually as well as physically, to take the vows of organization life, and it is they who are the mind and soul of our great self-perpetuating institutions." They have replaced Weber's Protestant ethic with what Whyte calls the "Social Ethic," which is "that contemporary body of thought which makes morally legitimate the pressures of society against the individual." Speaking of canonical German sociologists, most of the 1950s books that sounded alarms about the rise of conformity in the United States are really about Ferdinand Tonnies's idea of the shift from gemeinschaft to gesellschaft—from a traditional society to a modern one. They regard this shift, which necessarily entails more emphasis on the role of large institutions and formal rules and procedures, as being almost entirely unfortunate.

Galbraith's book, another unlikely best seller, was a narrower attack on the "conventional wisdom" (a term Galbraith coined) of his profession, economics, especially its idea that ever-increasing production should be the dominating goal of government policy makers. Both Whyte and Galbraith partook fully of the view of the large business corporation as all powerful: the leading corporations "show marked indications of immortality," Galbraith declared. This was because, in a consumption-obsessed society, corporations had the power, through advertising in the mass media, to generate demand at will, simply by persuading the gullible public that it needed more consumer goods. Galbraith was less concerned with the problem of individual conformity than Whyte and more concerned with creating a more active and well-financed public sector, but both of them were in effect proposing that liberalism cease to be chiefly concerned with the well-being of ordinary Americans. As Galbraith put it, "In fact, the major uncertainties of economic life (subject to some caution concerning the control of depressions) have already been eliminated. The ones that remain are of much reduced urgency."

I want to pivot in a moment to another set of perspectives on the corporation—from within business—but before I do, it's worth noting that I could devote far more time than I have to surveying the line of descent from David Riesman. Of many works in the line, one that holds up very well is Betty Friedan's *The Feminine Mystique*, published in 1963. We think of it, properly, as a pioneering work of feminism, but if you reread it you'll see that its context is the by now familiar world of consumer society, conformity, suburbia, and the stifling of individuality. (Friedan, however, behaved after the book was published in the manner of a good pluralist by helping to found a pressure group, the National Organization for Women.)

One of the works that doesn't hold up so well, except as a document of its cultural moment, is Charles Reich's *The Greening of America*, from 1970, whose terminology for its own neo-Tonniesian distinction is Consciousness I and Consciousness II. Reich took the argument that had been building over two decades to its logical end point by asserting that our society "can be thought of as a single vast corporation, with every person as an involuntary member and employee." As that brief quote indicates, Reich was yet another anti-institutionalist. "One of the central aspects of Consciousness II," he noted witheringly, "is an acceptance of the priority of institutions, organizations, and society and a belief that the individual must tie his destiny to something of this sort, larger than himself, and subordinate his will to it. . . . He is an 'institution man.' He sees his own life and career in terms of progress within society and within an institution. . . . He also looks to institutions to provide personal security in terms of tenure, salary and retirement benefits."

It's my sense that one crucial part of the anticonformity liberal intellectuals' catechism has lost its salience by now: today we are far more concerned about the erosion of community than we are about the extinguishing of individualism. But in other ways, their legacy is still with us. To their credit, they helped create cultural space for the emergence of what David Truman called "unorganized groups" (like the feminists inspired by Friedan and others), whose concerns had been excluded from American institutional life, to organize themselves and achieve widespread and lasting change. And more broadly, words like *corporate* and *bureaucratic* still carry a distinct stench. At least a substantial region of liberalism lost its fluency in the language of economic argument for quite a while, because it became so accustomed to assuming that economic concerns had become secondary and cultural ones primary. The ideal of liberalism's operating through groups, organizations, and institutions that build up enough strength to be able to make effective self-interested claims in bargaining sessions with other groups fell deeply out of fashion. The succeeding ideal was of a liberalism based on the eloquent assertion of one or another powerful moral claim, which would succeed through the force of its argument rather than through its institutional power and skill at lobbying.

In the years following the end of the Second World War, it was an open, and hotly contested, question how far the United States would go toward setting up a social-democratic, or corporatist, social order that would go further in the direction of a state role in economic and social life than the New Deal had—and the answer to the question turned out to be not very far. Now, in the 1950s, many liberals wound up implicitly accepting an idea they'd spent the late 1940s grumbling about: that corporations, rather than government, would become significant guarantors of health care, job security, and retirement benefits, at least for the middle class. (Of course, the liberal-activist stance of government during the New Deal had been substantially responsible for corporations having taken on these tasks in the first place.) If you were a lifer at IBM or DuPont, you had other problems, not those. Private institutions were a substantial bearer of responsibility for the social welfare of a significant portion of the country.

I am engaging in this exercise in intellectual history because I believe it mattered. Ideas do not usually have a scientifically provable causal relationship with events, but history as it unfolds has an idea content as one of its elements, and the ideas come from somewhere. You can hear, for example, language from some of the books I've been discussing in John F. Kennedy's presidential campaign and administration—especially *The Affluent Society*, which shouldn't be surprising because John Kenneth Galbraith worked for Kennedy. Kennedy's rhetoric implicitly contrasted Dwight Eisenhower, an Organization Man if ever there was one, with himself as a younger, more vigorous, and unbureaucratic kind of leader. As president, Kennedy repeatedly chose to work around, rather than through, government bureaucracies. And in less visible but nonetheless highly consequential ways, anti-institutionalism made itself felt in the way legislation and regulations were written, the way court decisions were framed, and the way leaders were trained to think about society and the course of their own lives. I will give some examples in the next lecture; right now, I want to return to intellectual history, pursuing its course, on the issues I've been discussing, inside the business world rather than outside of it.

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One can take an economic-determinist view of the corporation, which would be that its shape and form and practices can be understood simply as rational responses to market forces, but there is also a tradition of businesspeople and students of business understanding the corporation more as a social institution. It's important to bear in mind how rapidly large-scale industrial capitalism spread across the American landscape. Big business essentially didn't exist before the Civil War, with the possible exception of the early railroad enterprises, and before, say, 1925, it was associated mainly with its founding empire-building owner-operators. Then, quickly, publicly held corporations run by career executives, employing in some cases hundreds of thousands of people, came to dominate the American economy, and this situation appeared to be permanent. As Charles and Mary Beard wrote in 1930, "In the place of innumerable isolated plants owned by natural persons engaged in competitive production to meet local needs, was exhibited a network of corporations controlling enormous establishments from which issued three-fourths of the annual output of manufactures—indicating that the anarchy of competition was held in check by combinations, conversations, and understandings competent for most eventualities." American society devoted a good measure of its energies during the first half of the twentieth century to creating an infrastructure of large institutions. The leading corporations were the largest of them, except for the military during wartime—far larger than the bureaucracies of the federal government.

To operate a coherent, ongoing organization on this scale was like creating a whole society. The young Peter Drucker was given scholarly access to the internal workings of General Motors for eighteen months during the Second World War. In the book he wrote as a result, *Concept of the Corporation*, published in 1946, he announced that the large American corporation had become "our representative social institution." It "sets the pattern and determines the behavior even of the owner of the corner cigar store who never owned a share of stock, and of his errand boy who never set foot in a mill." Big government and big labor "are nothing but social responses to the phenomenon of modern Big Business and of the corporation." All in all, "the emergence of Big Business, i.e. the large integrated industrial unit, as a social reality during the past fifty years is the most important event in the recent social history of the Western world."

Drucker's direct concern was with describing how GM had created a divisional structure as a way of managing its vastness—a story recounted in more detail later in Alfred Sloan's memoir with organization charts, *My Years with General Motors*, and in the work of business historian Alfred D. Chandler—but it bespeaks his overriding concern with the corporation as an institution rather than as an economic entity. He mentioned money only rarely; at one point he asserted that the methods of GM's division managers were essentially the same as "the reported approach of Soviet industrial managers." He referred dismissively to the idea that a corporation can be understood as existing to serve the interests of its shareholders as an "old crude fiction." Maintaining cohesive purpose among the people who work there was far more the essential task: the corporation's "social function as a community is as important as its economic function as an efficient producer." This social understanding of the corporation, to Drucker, had implications far beyond the boundaries of each individual business entity: "The survival of the very meaning of our society . . . depends on the ability of the large corporation to give substantial realization of the American creed in an industrial society."

The dissimilarities between Drucker's view and that of the liberal thinkers about corporations whose views I was discussing earlier should be obvious, but it's worth also noting the similarities. Both treated the corporation as a rather startling and hugely significant new form of social organization, and both saw the corporation's life as being principally about organizing human activity rather than about the struggle to survive and prosper in the marketplace. People in business, naturally, saw the social aspects of the corporation as noble rather than malign. To them, successful management was an art, a science, a benign and creative social activity. One of the pioneer versions of that now ubiquitous American type, the management expert, was Chester Barnard, a career executive at AT&T who rose to the rank of president of the New Jersey Bell Telephone Company. In his 1938 book, *The Functions of the Executive*, Barnard put at the top of the list of skills a manager needs "the inculcation of belief in the real existence of a common purpose" by those who work in a corporation. That was because the corporation is "dependent upon the willingness of individuals to cooperate and to contribute their efforts to the cooperative system." In his litany of tools that are at a manager's disposal in his effort to generate cooperation, Barnard placed very little emphasis on economic ones: "The unaided power of material incentives, when the minimum incentives are satisfied, in my opinion is exceedingly limited as to most men." It is much more important for the executive to have, and to demonstrate to his employees that he has, "personal moral codes."

If you're a hardheaded person who demands a more structural, less mystical explanation of how the corporation could have been so socially oriented, so blithely unconcerned with the analyst calls and quarterly earnings reports and stock prices that, we're told, are all chief executives can think about today, the best place to go is Adolf Berle and Gardiner Means's landmark 1933 book, *The Modern Corporation and Private Property*. Berle and Means's big idea was that the American corporation was distinctive not only in its size and in the rapidity of its rise to the leading role in the economy, but also in its having severed the historical link in business enterprises between ownership and control. The two hundred largest corporations, they asserted, controlled about half of the national wealth, and most of them were public companies owned by a large, widely dispersed, passive cohort of stockholders. That meant the people who controlled the corporations, their top management, were only insignificantly its owners—and, conversely, the owners were able to exercise only insignificant influence. "The translation of perhaps two-third of the industrial wealth of the country from individual ownership to ownership by large, publicly financed corporations vitally changes the lives of property owners, the lives of workers, and the methods of property tenure," Berle and Means wrote. "The divorce of ownership from control consequent on that process almost necessarily involves a new form of economic organization of society." And elsewhere: "The dissolution of the atom of property destroys a very foundation of the economic order of the past three centuries has rested."

The Modern Corporation and Private Property was published exactly coincident with the onset of the New Deal, which Berle and Means strongly supported (Berle was a leading member of Franklin Roosevelt's Brains Trust). What was most interesting to them about the new separation of ownership and control in business was that it created opportunities for government. The power of American corporations was now "comparable to the concentration of religious power in the medieval church or of political power in the national state." It was therefore only natural that corporations "be made to accept responsibility for the well-being of those who are subject to the organization, whether workers, inventors, or consumers." Berle himself soon was helping to devise the systems for imposing these responsibilities, which played a significant part in corporations becoming as socially oriented as they did. And, as Berle and Means hinted from time to time, the modern corporation's executives might even be amenable to this sort of intrusion, because they had so little incentive, as at best minor shareholders, to resist fiercely any incursion on the potential profitability of the corporation. Why shouldn't they be statesmanlike with respect to the interests of workers and consumers, so long as it didn't threaten their ability to remain in control of the great enterprise?

Besides this rather powerful reason, the midcentury corporation had others to be relatively impervious to the vagaries of economic life. Almost no contemporary commentator mentioned it, but it's obvious now that the United States during and after the Second World War occupied an extraordinarily advantageous, if temporary, position in the global economy, because the other major developed nations were far more damaged by the war than we were, and so less able to set the terms of political economy. The corporation was still relatively young, still growing, and still relatively immune even to domestic competition, thanks in part to the way the regulatory system was structured. Information technology and communication were in the hands of the corporate few, not the individual many. Culturally, as almost all the authors I have quoted acknowledged, the country simply was not very money oriented, once severe material want had been taken care of. (Writers in the 1950s could not see into the future, but the point is especially dramatic if you are able to compare national attitudes toward money then and now, as we are.) And American culture was also conditioned to be almost reverential—again, especially by our standards today—toward large established institutions and their leaders, in and out of business. It was institutions, after all, that had defeated the Depression and the Axis and made the United States the preeminent world power, and now they were essential to the next national challenge, winning the Cold War.

Understood as a vast, invulnerable, and essentially social rather than economic institution, the corporation could bear a heavy load in a system that business historian Sanford Jacoby calls "welfare capitalism." Its executives aspired to be statesmanlike and to keep many inside and outside constituencies happy. Its workers were prospering. Its shareholders were quiescent. Liberals of the traditional kind could keep trying to increase the social tax on corporations as a way of bringing the United States closer to the social-democratic ideal that had emerged in Western Europe. Liberals of the newer kind represented by David Riesman and others I have mentioned here could focus on creating and expanding a new cultural space outside the grip of the corporations and other large institutions. For a long time nobody could imagine that the throne on which GM and GE and AT&T and the others sat was anything but rock solid.

A useful place to find in concentrated form the baseline ideas from which the country has dramatically departed is a collection of essays published in 1959 called *The Corporation in Modern Society*, edited and introduced by the dean of Harvard's School of Public Policy Edward S. Mason. Not all the contributors—a roster of eminent Establishmentarians including Kingman Brewster, Eugene Rostow, Richard Crosland, and Carl Kaysen—agreed on all points, but nobody disputed that big corporations had become the dominant American institutions, all powerful, immune to economic pressure, and able to shoulder an astonishing array of social missions. As Mason put it, "Innovation at the hands of the small-scale inventor and individual entrepreneur has given way to organized research. The role of government in the economy persistently increases. The rugged individualist has been supplanted by smoothly efficient corporate executives participating in the group decision. The equity owner is joining the bond holder as a functionless *rentier*."

Obviously, all that changed. Any change of such magnitude has multiple complicated sources. I want to conclude this lecture by focusing on just one intellectual event, the publication in 1976, in an obscure new economics journal, of Michael Jensen and William Meckling's "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," which, as I am writing this, has accumulated an astonishing forty thousand academic citations.

Jensen and Meckling were economists who lived deep inside their own profession's debate about the nature of "the firm" and who at the time were not much interested in the larger social and political questions about corporations that I have been discussing. They were writing in opposition to the idea, primarily associated with Milton Friedman, that a corporation can usefully be understood as a completely rational, eternally profit-maximizing entity. Jensen told me recently that the first time he presented the paper, at Friedman's department at the University of Chicago, he was mocked, and it was turned down by the leading economics journals where he had submitted it. That was why it was published in the *Journal of Financial Economics*, which Jensen himself had founded only two years earlier.

"Theory of the Firm" belongs in a tradition of work by economists—including John R. Commons, Ronald Coase, Oliver Williamson, and also, arguably, Daniel Kahneman and Amos Tversky—that, in one way or another, introduces new complicating elements to the classic economic understanding of how individuals and firms behave. Jensen and Meckling's particular realm was "principal-agent" theory, which wrestles with the problem of how to prevent someone (the agent) who is hired to carry out a task by an economic actor (the principal) from screwing it up. Their famous paper was, as they say at the outset, a return to the theme of separation of corporate ownership and control that Berle and Means had introduced a generation earlier.

For Jensen and Meckling, in a corporation, the principal is the shareholders, the agent is the management, and the problem is that the latter can't be relied upon to represent the interests of the former. "As the owner-manager's fraction of the equity falls, his fractional claim on the outcomes falls and this will tend to encourage him to appropriate larger amounts of the corporate resources in the form of perquisites," they note ominously. "As the manager's ownership claim falls, his incentive to devote significant effort to creative activities such as searching out new profitable ventures falls. He may in fact avoid such ventures simply because it requires too much trouble or effort on his part to manage or to learn about new technologies." Where Berle and Means saw in the autonomy of corporate management an opportunity for society to demand more of the corporation, Jensen and Meckling saw shareholders being ripped off by self-protective corporate bureaucrats; to them it was axiomatic that corporations should be run for the benefit of their owners, not for the benefit of society, and certainly not for the benefit of management. Their solution to the problem was to give shareholders more control and to give management incentives to care more deeply about the value of the firm. These might include tying executive pay to performance through stock options and other means and taking on more corporate debt because that would create pressure to operate the firm more profitably.

Just as one can use the publication of *The Lonely Crowd* as signaling the beginning of a distinct moment in American intellectual culture without overattributing to that single piece of writing the power to change the course of history, so too can one say that "Theory of the Firm" makes a good marker for the beginning of an era without implying that it caused the era to begin. The heyday of the Organization Man had come to a close, not as a result of a quarter century of ever more fierce attacks from a liberal, culturally oriented perspective, but because the financial markets, at a time of economic stagnation and increasing competition from abroad, were losing patience with him. The corporation, to use Daniel Bell's terminology, was about to change from a sociologizing to an economizing institution, one whose aim was performance rather than size. The heyday of Transaction Man (to whom I will refer henceforth as Transaction Person, since we're not in the 1950s anymore) was beginning.

Most of the writing about corporations that I have been quoting from refers to the financial markets not at all; the prevailing idea of the Organization Man era was that financiers such as J. P. Morgan had been important in assembling large business entities in the first place, but that by the mid-twentieth century Wall Street had become merely a well-heeled service provider to the mighty corporation. Mark Mizruchi, in *The Fracturing of the American Corporate Elite*, writes, "The banks were seen as playing a primarily advisory role—similar to lawyers and accountants—at most a site of mediation rather than a source of power."

Adolf Berle declared in the 1950s that the corporation had now become so large and so profitable that it could generate all the capital it needed internally, from retained earnings, and could essentially write off Wall Street. "The capital is there, and so is capitalism," he wrote. "The waning figure is the capitalist." It was the idea of the corporate manager as a kind of omnicompetent superman, and of the corporation as a limitless generator, through its profits, of capital to finance expansion, that led to the conglomerate trend of the 1960s, in which many leading corporations became collections of a wide range of tangentially related companies.

Now the balance of power began to shift. An increasingly deregulated and empowered financial industry got the whip hand over big business and began taking apart and reassembling the corporation through mergers, leveraged buyouts, and other investment vehicles, increasingly on a global rather than national scale. Working in these financial entities replaced being a corporate lifer as the paradigmatic form of elite employment in the United States. (One of the contributors to Edward Mason's collection noted that the three universities most heavily represented among the executives of big nonfinancial corporations were Harvard, Yale, and Princeton—which is inconceivable today, because business-inclined students at those schools, not to mention Stanford, are so much more powerfully drawn to finance, consulting, and entrepreneurship.) I will go into the details of how all that happened in the next lecture.

In 1993 Michael Jensen gave a speech warning that the United States was undergoing a new industrial revolution that was likely to have profound and disruptive social effects. "Although the vast increases in productivity associated with the nineteenth century industrial revolution increased aggregate welfare," he said, "the large costs associated with the obsolescence of human and physical capital generated substantial hardship, misunderstanding, and bitterness." So it would be with the financial revolution of the late twentieth century: Jensen was hardly opposed to it, but he thought the country hadn't paid enough attention to the need to ameliorate its harsher effects. The corporation had become, in effect, a significant provider of welfare-state benefits to a significant portion of the country. Shareholders had borne the cost of that, but now, newly empowered, their tolerance had run out. Meanwhile, the country had become unaccustomed to sorting out people's claims to welfare and health in the traditional way—through political organizing and institutional bargaining in Washington and the state capitals—because it had seemed that corporations could do that work and that liberalism could expend its energies on other morally grander and less mundane projects. That left a major national mission undone. Much of the bewildering condition of our politics today can be understood as an unplanned and often unlovely reaction to the financial revolution and to our impatience with looking for institutional solutions to our problems.

LECTURE II.
WHAT TRANSACTIONS CAN'T DO

I want to confess that I've been feeling a twinge of guilt about these lectures, because I imagine that, when I was invited to give them, the expectation at Stanford might have been that my subject would be journalism. Just a few months ago, I came to the end of a ten-year term as dean of the Columbia Graduate School of Journalism, and it turned out that my time in that job was a period of enormous change in my profession, as the Internet began making its full effects felt. Journalism is an essential realm in a free society, and it would be reasonable to expect that I would have something to say about its condition and its prospects.

The problem is that as a journalism school dean, one has a great many opportunities to say a few words about the state of journalism—so many that, I will now confess, one can get a little weary of hearing oneself talk about it. Your invitation coincided not only with the end of my term but also with a postdecanal year off, so I decided to use the gift of time from Columbia and the gift of an invitation from Stanford to explore a new subject rather than to reflect on a familiar one. But there *is* a connection between what I have been doing these past ten years and the topic of these lectures.

Journalism—at least institutionalized journalism in the late twentieth century—seems to me to have been an example, one of many, of the unofficial but powerful American social compact of that era that I discussed in the previous lecture. News was a private business (heavily regulated in the case of broadcast journalism, lightly regulated in the case of newspapers) that was expected to take on a range of broad social missions. These included, inside each news organization, providing the kind of health care, employment security, and retirement benefits that were standard items in corporate America in those days and also, in the name of public service, undertaking a set of journalistic activities that were not economically rational but that the better big newspapers did anyway, such as investigative reporting, international reporting, and detailed coverage of state and local government. Seeing these informal but permanent-seeming arrangements—both the economic ones and the journalistic ones—disappear quite rapidly in response to severe economic pressure led me to wonder how significant a part of American life such arrangements had been in other fields and what their dissolution, evidently forever, might mean for our society. In other words, can what happened in the past decade in journalism be understood as an especially dramatic example of a broader phenomenon that bears consideration? As everyone here is surely aware, the university as an institution—not this one, but many others—is coming under similar pressure, both as a generous employer and as a bundler of a wide range of socially useful activities, some of which it's hard to imagine surviving if they have to stand alone and fend for themselves economically.

Before I became a dean, I was a working journalist for decades, producing mostly magazine articles and books. In my way I was a Transaction Person, even though I wasn't engaged in financial transactions: I would get an assignment, go somewhere, gather as much information as I could in a limited time, and develop an idea about the situation I was covering—the more dramatic the idea, the better. Then, having published my story and left it to my subject to enact my findings, it was off to the next assignment, in which I would pronounce judgment on another previously unfamiliar realm. I had the characteristic lack of respect, bordering on contempt, of my generation and my profession for organizations and bureaucracies. But then—and I know this is comically predictable—as soon as I became a dean at a research university, I developed a strange new respect for large institutions and for the people who choose to devote their main energies to administering them.

At least the better-established universities, as you know, have been more able than many large businesses to maintain the welfare-state aspects of American organizational life, though that may now be eroding. They can, as large news organizations used to be able to, charge their customers a single high price that covers a very wide range of aggregated activities, some of which could not survive without this kind of economic protection. They have elaborate structures of rules, procedures, committees, rituals, and so on that can often make daily life frustrating, especially for deans, but that help protect people without power from being treated capriciously while preserving the power of the institution to avoid disintermediation. As an administrator I was an instantaneous convert to pluralism, because it is impossible to operate in a university environment without dealing with groups and trying to devise negotiated solutions to their conflicting claims. One cannot simply order everyone to follow one goal that is impervious to modification (a stricture that most of my old Transaction Person friends assume, wrongly, to amount to a crippling managerial disadvantage), yet universities can and do change quite a lot over time. So now, in thinking about institutions in society more broadly and rigorously, I am trying to figure out how much of the appreciation for institutions I have developed is merely personal sentiment and how much has wider implications.

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In *The Modern Corporation and Private Property*, Adolf Berle and Gardiner Means spent a good 160 pages, close to half of the book, laying out in detail exactly how control of the corporation passed from the shareholders to the management during the early decades of the twentieth century. This entailed enumerating a list of technical changes engineered by Wall Street corporate and securities lawyers, none of which attracted public notice at the time—and you can see why; even in the authors' literarily capable hands, this part of the book is a struggle to get through. Berle and Means argue persuasively that these changes, taken together, added up to a significant rearrangement of American society, if not of human society more broadly.

The large change that I have been discussing—away from institutions and toward transactions, away from corporations and toward the financial markets—was put into effect through a similar long series of specific undramatic policy changes at the end of the twentieth century. It is usually very difficult for electoral politics, journalism, or public opinion to register the magnitude of such changes as they are occurring. That is partly because they are difficult to understand, partly because they often sound like sensible reforms that no one could possibly object to, and partly because they lack the feeling of a consequential event that, say, an election night has. In this talk—sorry to disappoint you—I don't have time to go into full detail about the building blocks that created the edifice of our transaction-oriented society. But I will mention a few of them, just to give you the flavor. These examples will all be from the financial world.

In 1974 Congress passed the Employee Retirement Income Security Act (ERISA), meant to protect employees from underfunded company pension plans. That led to substantial increases in the capital held within pension funds and invested in the financial markets. Deep within the law and subsequent regulations issued by the Labor Department was a revision of the "prudent man rule," which dates all the way back to 1830, so as to allow pension funds and endowments to invest some of their funds at a higher level of risk—for example, in low-grade bonds and leveraged buyouts. Also in 1974, the Securities and Exchange Commission abolished fixed commissions on stock trades, which lowered the cost of trading and therefore enormously increased the volume.

In 1978 Congress created the now ubiquitous individual 401(k) pension plans, which signaled a massive shift from defined benefit to defined contribution pensions and transferred control of capital from corporations to financial firms. The rise of both corporate and individual pensions as major players in the markets—which led Peter Drucker to announce, in a 1976 book, that the United States had become a socialist country because the workers (meaning pension funds) now controlled the means of production (meaning equity ownership in corporations)—helped bring down the curtain on the Berle and Means model of corporate control. Trades by individuals in specific stocks and bonds were on their way to becoming an insignificant part of market activity. Ownership had effectively moved into the hands of big institutional investors who were not hesitant to exercise their power, which meant it was no longer so widely distributed or so completely divorced from control. In part because of the influence of Michael Jensen and William Meckling's work, management was more likely to be paid substantially in the form of stock options, so executives began thinking more like owners too. The most celebrated chief executive of a traditional big corporation in the late twentieth century was Jack Welch of General Electric; what he was celebrated for was rigorously privileging the interests of shareholders over those of employees. And although Drucker's observation was facile, it was, in fact, ironic that pension funds and endowments, in seeking higher returns for their generally liberal constituents, became a source of pressure against the shareholder-ignoring generosity of the corporate welfare state.

In 1980 Congress passed the Depository Institutions Deregulation and Monetary Control Act, which marked the beginning of the end of the long era in which banks were forbidden to pay interest on checking accounts and in which savings and loan companies were permitted to pay only strictly limited government-set interest on their deposits. This put pressure on traditional financial institutions to make their money on riskier activities because they no longer had a government-guaranteed way to make a profit on their deposits. It also led to enormous flows of ordinary Americans' savings out of banks and into money-market funds and other instruments that invested in the financial markets, which meant that capital now came more from empowered, return-seeking investors and less from traditional bank loans—and that, too, helped push banks into investing and trading themselves.

In 1984 Congress passed the Secondary Mortgage Market Enhancement Act, which was an important step in the process of permitting financial institutions to buy up home mortgages, bundle them into investment vehicles, have them blessed by rating agencies, and sell them to the public. Mortgage-backed securities were, of course, only one example of a wide range of new financial products—options, derivatives, index funds, swaps, straddles, and so on—that were enabled by the work of mathematically oriented economists and advances in information-processing technology as well as by deregulation.

In 1994 Congress passed the Interstate Banking and Branching Efficiency Act, which was the final nail in the coffin of the historical ban on interstate banking. It was in the years just after this act's passage that financial entities such as Chase and Bank of America made their first appearance on lists of the country's biggest corporations. (Chase's assets grew almost twentyfold between 1995 and 2013; its profit last year, which was a down year, was about seven times the combined profits of the fifty largest American commercial banks, including Chase itself, in 1975.) Also in 1994, the eighty-seven-month Uruguay Round of the General Agreement on Tariffs and Trade negotiations concluded with the creation of the World Trade Organization, which was a crucial step in the process we call globalization—and of course as production and trade went, so went investment capital.

In 1999 Congress passed the Financial Services Modernization Act, which ended the Depression-era enforced separation of banking from other financial activities such as creating, marketing, and trading financial instruments.

In all these instances, the law was catching up with financial reality: banks and other financial institutions and their lawyers and lobbyists aggressively exploited the fragmentation of government (there are hundreds of state, national, and overseas bodies that separately regulate financial activity) to push their permitted boundaries outward. And after each legal change came further changes in the activities and products of the financial industry. Together, what all this amounted to was the creation of bigger, faster, intensely competitive, nationalized or globalized financial institutions that, on behalf of the highly mobile investment capital they managed, could become ever bolder and more imaginative in devising new means of seeking higher returns. New technology was a big part of this story, because it permitted enormous advances in the velocity, scale, and sophistication of what was possible in the financial markets. And all this was a development of sufficient magnitude as to send a whole series of other economic, social, and political changes cascading across

American society and the world. The most immediately visible of these was the appearance of a startlingly different version of Wall Street in the 1980s, one dominated by aggressive investors and financiers who repeatedly took apart and reassembled elements of corporate America. This change was a structural one—thinking about it in terms of fine old gentlemen being replaced by vulgarians isn't very useful—and it was only the beginning of a series of developments of similar magnitude in the financial markets.

I do not mean to argue that all these changes were inevitable. Nothing is inevitable. For many decades they didn't happen, and then they did happen. Why? Here, I think, the way to look for the answers is by exploring the broader set of ideas that undergird most specific changes at any historical moment. I will to get to these by moving up the ladder of generality step by step, from policies, such as I have just been discussing, to broader political context, and finally to public philosophy.

During the Organization Man era, the American economy was substantially balkanized, both functionally and geographically. The financial system again makes for a convenient example, though it isn't the only one. Because of a deep-seated suspicion of concentrated financial power that dates back to the earliest days of the United States, governments at all levels strictly limited the activities of banks, as well as their geographic scope. In return, many players in the financial system were able to live comfortably inside state-protected safe harbors; think, for example, of the owner of a savings and loan company who had the legal gift of not having to compete for deposits by raising interest rates. The beneficiaries of arrangements like this—golf-playing local earls and viscounts, at a time when the country was becoming entranced with the idea of meritocracy—were hard to admire, at least from afar, and the discontent with them was politically ambidextrous. It wasn't just powerful global financial institutions that were disadvantaged by cushy deals like the savings and loan owner's, but also consumers, whose interest rate on deposits, by the late 1970s, was lagging behind the rate of inflation. Academics and journalists often explain the vogue for deregulation in the last quarter of the twentieth century as the fruit borne by a well-planned conservative campaign, which began with a memo that Lewis Powell, the future Supreme Court justice, wrote in 1971 and peaked when Ronald Reagan took office a decade later. But it is well to remember that some aspects of deregulation had impassioned liberal support. Before President Reagan was a deregulator, President Carter was.

Another future Supreme Court justice, Stephen Breyer, as a young staff attorney working for Senator Edward Kennedy, helped persuade Kennedy to make airline deregulation one of his causes. As with the banking system, the airline system was heavily regulated, in such a way that a coterie of middlingly competent regional carriers was kept in business by a government agency, the Civil Aeronautics Board, that had to approve all routes and ticket prices and did so in a manner that kept prices high and planes less than full. Regulation's supporters were most of the incumbent players (the airlines, their Washington lobbying organization, the pilots' and bag handlers' unions, and the Civil Aeronautics Board's staff and commissioners)—not nonbusiness travelers. Both Ralph Nader and Milton Friedman were all-out advocates of airline deregulation. As Breyer wrote, deregulation was "an issue where one could promise concrete achievement, lower prices, regulatory reform, and less government all in one package." Kennedy's hearings on airline deregulation in 1975 led to the passage of a major deregulation law in 1978 and the abolition of the Civil Aeronautics Board in 1985. There were subsequent deregulations of trucking, oil and gas, radio, television, and the telephone system.

It's true that some forms of regulation, like environmental, health, and safety regulations, fit into the standard ideological categories—liberals for, conservatives against—although even in those cases, market mechanisms became part of the liberal tool kit (think of cap and trade as a means to limit carbon emissions or health exchanges as a way of covering the uninsured). But liberals and conservatives alike—everybody except the immediately interested parties—largely abandoned the idea of government handcrafting the structure, the activities, and the prices of specific industries. That seemed to entail depriving what was by then a stagnating American economy of the dynamism of the market, as well as giving consumers a bad deal. Liberals (I'm including myself: I enthusiastically embraced this line of thinking) tended not to think of economic regulation as an important cause and so were rarely vocal in opposing new forms of deregulation, like the latter phases of financial deregulation that, after the 2008 financial crash, suddenly became high-awareness items on the liberal agenda.

Economic deregulation was supposed to create innovative new companies to replace the weak older companies that the loss of government protection from competition would drive out of business—does anybody remember People Express or Winstar?—but that has not been its primary effect. The usual result of a generation's worth of deregulation in a business sector was a regime of lower prices and less service to the consumer, a more concentrated and oligopolistic industry structure, and continued erosion of the old ethic of institutional paternalism as government constraints on business fell away. It's a new world that some people prefer and some don't, but it should be understood as representing the replacement of one unofficial but powerful compact in political economy with another, not as something that inevitably had to happen as part of the march of human progress.

As we move up the ladder from policies to fundamental principles, again the standard liberal-conservative distinctions do not neatly apply to the development of the anti-institutional strain that I have been following. During the last decade of the twentieth century, as the Soviet Union fell and the trade-promoting "Washington consensus" was established, the developed world's vision of a good society moved firmly in the direction of the market and away from the state and in ways that, here in the United States, the more liberal political party mainly supported. And if you're tracking movement along the institution-versus-transaction axis rather than the market-versus-state axis, as I am trying to do here, it's important to understand that the project of creating a new world in which large pools of investment capital attained the maximum possible mobility of time and geography in order to seek the highest returns—the creation of an Age of Liquidity, if you will—wasn't universally popular among conservatives and wasn't universally unpopular among liberals. As these ideas played out, many previously protected businesses run by loyal Republicans were wiped out, and their owners weren't happy about it. The strain of conservatism that was oriented primarily toward tradition and stability was pretty well wiped out too. And, as I've said, many liberals—in shorthand, neoliberals—had come to see groups and institutions as impediments to the liberal project.

Instead, broad ideas such as efficiency and justice, meant to fold the entirety of American or even global society into their embrace, became the goal. Neoliberals thought of the public as a unit, not as an unlovely and highly varied collection of eternally squabbling groups with irresolvably different perspectives, and of the public interest as something that could be discerned and implemented. A righteous cause, put on the agenda by an effective and admirable advocate (an activist, a public-interest lawyer, a philanthropist, an investigative journalist) and promoted through the techniques of public opinion—that was how society should move, not through "politics," or "bureaucracy," or "special-interest groups."

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In order to create a society built on such attractive general principles, it was first necessary to abandon the ideal of a society assembled from more particular component parts. That meant replacing pluralism with another theory. The first important modern academic broadside against pluralism as a political model was E. E. Schattschneider's *The Semisovereign People*, published in 1960. Schattschneider, a penitent former pluralist himself, had embraced the view that big, rich, unshakably secure corporations dominated American life, including political life, in ways that conferred secondary status on all other entities that might have legitimate claims on government. Pluralism didn't work in the way it was supposed to, because the balance of power was so much on the side of one set of interest groups. The quote everyone remembers from Schattschneider's book is: "The flaw in the pluralist heaven is that the heavenly chorus sings with a strong upper-class accent."

In 1965 Mancur Olson, a young economist soon to become a subcabinet official in the Johnson administration, published *The Logic of Collective Action*, a book as amiable in tone as Schattschneider's is dyspeptic and one that is more relentlessly logical in its critique of pluralism. Schattschneider, as a political scientist, naturally thought in terms of groups, so his solution to the problem of pluralism was to empower larger groups that felt more like countervailing institutions to big business: political parties. Olson, as an economist, naturally thought in terms of individual incentives. He argued that pluralism worked properly only for small groups with highly specific economic interests; in such cases, each member of the group has a tangible incentive for participating because political victory would bring an immediate economic reward. Larger and more diffuse groups with broader goals are always less politically effective because they don't have a powerful-enough glue to hold their members together (except in cases where members are given no choice, as in a closed-shop labor union). As Olson put it, "Unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make people act in their common interest, *rational self-interested individuals will not act to achieve their common or group interests*." Therefore, in government the minor specific needs of small cohesive groups tend to be met, and the larger more important needs associated with broad national goals tend not to be. For example, to quote Olson again, "Often a relatively small group or industry will win a tariff, or a tax loophole, at the expense of millions of consumers or taxpayers in spite of the ostensible rule of the majority." Olson thus gave an elegant logical structure to the idea that Washington doesn't work because it is held in a death grip by special-interest groups.

The most full-bore academic assault on pluralism during this period was Theodore Lowi's *The End of Liberalism*, published in 1969. Lowi was proud to call his book a polemic, directed against what he called "interest-group liberalism"—an evil so powerful that, in his view, it had caused the United States to cease even to be a democracy. Interest groups, Lowi asserted, take control of the apparatus of government—administrative agencies, congressional committees, and so on—and bend it toward their own needs, which are, generally, those of "organized capitalism." Thus, government winds up supporting, rather than combating, entrenched privilege. It cannot plan. It cannot meet the real needs of the nation. Broadly speaking (and Lowi was never reluctant to speak broadly), "Liberal governments cannot achieve justice." In a sense, Lowi was offering a left-of-center, government-oriented version of Michael Jensen and William Meckling's principal-agent problem: justice is the principal and interest groups the agent, supposed to be acting on behalf of the principal but actually impeding, acting instead on their own behalf.

The End of Liberalism was very much a book of its time. Even in the 1979 revised edition, published on the verge of a twenty-year reign of political conservatism, Lowi barely found conservatism worthy of mention, because he was so completely focused on the struggle between all-powerful business interests, on one hand, and feckless interest-group liberalism, on the other, as the main event in American politics and government. (Ironically, Ronald Reagan's first budget director, David Stockman, credited *The End of Liberalism* with inspiring his youthful switch from liberal to conservative and with providing the template for Reagan's initial regime of big budget cuts in domestic programs, and Newt Gingrich, in his mid-1990s heyday, used to quote from Alvin Toffler's calls for "adhocracy" instead of institutions and bureaucracy in the same conservative-revolutionary spirit.) Lowi was writing at a time when what seemed to liberals to be the most pressing national problems—ending the Vietnam War, civil rights, ghetto poverty, feminism, pollution—didn't seem to have interest groups attached to them, and that was why he believed some other road to political change had to be constructed. But it wasn't long, of course, before these causes did have effective organized advocacy, to the point that conservatives began to understand "interest-group liberalism" to mean minority, feminist, environmental, and antiwar organizations. It turned out that the upper-class accent was not a prerequisite for singing in the pluralist chorus.

To replace interest-group liberalism, Lowi proposed a new system that he called "juridical democracy," in which government would set its course on the basis of broad rational assessments of national needs instead of the political adeptness of interest groups. I will confess that I can't figure out from reading *The End of Liberalism* exactly how juridical democracy, which Lowi described only briefly at the end of the book, was supposed to work, but shortly after *The End of Liberalism* was published, John Rawls's *A Theory of Justice* provided a philosopher's elegant and humane guiding principle for nonpluralist liberalism: one should first try to extirpate from one's mind awareness of one's own position in society and only then, from behind that assumed "veil of ignorance," conduct discussions of what government policy should be. It's impossible to do justice to a major philosopher like Rawls in this kind of drive-by summary, but it is fair to say that Rawls was the only living philosopher most people in the political and policy world had ever heard of and that they understood his work as enshrining a dream of unself-interested politics. Rawls's "original position" and "veil of ignorance" were especially appealing formulations for the sort of affluent good-government liberals who think of themselves as being involved in politics for entirely idealistic, reformist reasons. For them, Rawls-style liberalism entailed advocating on behalf of others who were in need, or on behalf of the whole society—not, except in cases of dire need, on one's own behalf.

This idea is so incredibly attractive on first encounter as to be well-nigh irresistible. Why not just sweep away the morally inferior self-protective arguments of those who are trying to hold on to what they have and to stand in the way of progress and instead do what's right? If you live on the Upper West Side of Manhattan, as I do, or in Silicon Valley, as you do, you'll be personally familiar with a version of this sentiment in which economic efficiency and social justice seem to go together, not to represent two different versions of the antipluralist position. We'll have free markets, free trade, equal opportunity, and human rights, all at the same time. It's a vision of politics that entails solving for a series of single logically and morally inarguable variables—one that descends, at least to my mind, from the vision of politics in *The Lonely Crowd* that I discussed in the first lecture, with its longing for a reign of principle lodged in the individual conscience instead of the conformist, group-based politics that David Riesman saw as prevailing in the United States in 1950.

But as you all know, the idea of wise, reasoned governance without respect to interests or institutions has been around for a very long time, at least since Plato proposed putting the affairs of state in the hands of a specially trained and selected class of guardians, so the arguments against it have been around for a long time too. Even Theodore Lowi admitted that there might be special problems in empowering somebody to enact one big set of noble principles upon a society as large and complex as the United States: referring to the inventor of what's probably the direct forerunner of our idea of "the public interest," he observed, "Rousseau's General Will stopped at the boundary of a Swiss canton." And Lowi acknowledged, in proposing his Rousseauian idea of juridical democracy, "At first these proposals may seem to constitute an elitist view of a cure. But it is elitist only in the sense that democracy does have special elitist tendencies. The elite in a democracy is comprised of those persons directly responsible to the largest electorates." John Rawls—who, as historian Daniel Rodgers put it, originally "imagined that justice could be formulated outside the particular community and particular relationships within which people actually lived"—by the end of his life had amended his theory of justice somewhat so as to create a place of honor for what he called "reasonable pluralism."

The fundamental problems with governing schemes that attempt to factor out interests and institutions have always been the same. It is very difficult to get people in a large society to agree on how the society ideally should operate: people's fundamental perspectives are simply too different. (Anyway, any particular group that wants government to do something truly consequential has to frame its argument so that it will attract allies from outside the group.) As Rawls put it, by way of explaining the modification of his views, "Three main kinds of conflicts set citizens at odds: those deriving from irreconcilable doctrines; those deriving from differences in status, class position, or occupation, or from differences in ethnicity, gender, or race; and finally, those deriving from the burdens of judgment." One might add that there is nothing more dangerous than a specially empowered political class that sincerely but wrongly believes itself to be acting in behalf of others, or of the society as a whole, while actually serving its own interests. As John Dewey put it back in 1927, in *The Public and Its Problems*, "It is impossible for high-brows to secure a monopoly of such knowledge as must be used for the regulation of common affairs. In the degree in which they become a specialized class, they are shut off from knowledge of the needs which they are supposed to serve." Anyway, who is to say that advocating openly in one's own behalf, especially if one is genuinely on the receiving end of injustice, is morally inferior? The passage from Rawls that I quoted just above was obviously written in respectful recognition of the achievements of the civil rights and feminist movements.

Pluralism was always subtler and more sophisticated than most of its last half century's worth of critics have been willing to acknowledge. In *Federalist No. 10*, rather than being starry-eyed about factions, James Madison defined them as being "adversed to the rights of other citizens, or to the permanent and aggregate interests of the community"; he was looking for ways "to cure the mischiefs of faction," and the sort of faction that worried him most of all was one that represented a majority and thus would find it tempting to impose its will on everyone else. One reason pluralism was so popular in the mid-twentieth century was that Hitler and Stalin made for vivid examples of the horrors that could befall a society run by a single suprademocratically empowered elite group motivated by big ideas. In the worst days of the Second World War, Joseph Schumpeter (to whom we do a great disservice by remembering him only for one two-word phrase, "creative destruction") declared, "There is . . . no such thing as a uniquely determined common good that all people could agree on or be made to agree on by the force of common argument," because "to different individuals and groups the common good is bound to mean different things." The idea that any idealist ought naturally to be drawn to the public interest as a governing principle, and that only a cynic could find the relentless squabbling of interest groups in a state capitol appealing, is far too facile.

In the caricature version of pluralism, interest groups are always absurdly particular in their concerns and usually business oriented—to use a contemporary example that everybody loves to hate, think of the notorious sugar lobby, which keeps prices artificially high to the benefit of no one but domestic sugar growers. The high theorists of pluralism, such as Arthur Bentley and David Truman, insisted that every citizen belongs to multiple groups in ever-shifting degrees of allegiance, that some groups are economic in their aims and some groups are not, and that unorganized or "latent" groups whose interests aren't being served by the political system can quickly become organized, active, and effective. Here one might think of the Tea Party movement emerging, to everyone's complete surprise, in response to the bipartisan government response to the 2008 financial crisis. What pluralists insisted on was that society and politics be understood in terms of groups, not of individuals or "the public"; that the integrity of the process rather than the specifics of its outcomes was the key to a healthy political system; and that a state of harmony was not possible, or even desirable, in a democracy.

That isn't to say they were blind to the flaws in American politics and society. David Truman ended *The Governmental Process* on a rather gloomy note, one that has resonance today. In a society with increasing inequality of income and wealth, growing separation between classes, and decreasing social mobility, he warned, unorganized groups will feel keenly that government and politics aren't meeting their needs, and they may decide to stop obeying "the rules of the game," such as tolerance of civil liberties, open debate, and respect for all groups' right to full political participation. "The great political task now as in the past," he wrote, "is to perpetuate a viable system by maintaining the conditions under which such widespread understanding and appreciation can exist. . . . In the loss of such meanings lie the seeds of the whirlwind."

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Books that aim to assess the big changes in American society over the past generation all seem to have titles that communicate the rending of a formerly unified social fabric. Just in the past few years, we've had Charles Murray's *Coming Apart*, Daniel T. Rodgers's *Age of Fracture*, George Packer's *The Unwinding*, and Mark Mizruchi's *The Fracturing of the Corporate Elite*, among others. (More celebratory books about the current moment, such as Thomas Friedman's *The World Is Flat* or Clayton Christensen's *The Innovator's Dilemma*, in no way dispute the picture of a society that is being taken apart and reassembled in a new and jarringly unfamiliar form.) It's ironic that an intellectual history that began with writers seeing excessive conformity as the country's leading social problem ends with an opposite diagnosis of the national malady: a nation broken into component parts that seem to lack any cultural, economic, or political commonality, or even the ability to bargain with each other in good faith.

I have tried to suggest in these lectures that one reason for this remaking of America was a change in our way of thinking about the nature of a good society. We began the second half of the twentieth century with a rough consensus around the ideal of a country oriented neither primarily toward the individual nor toward the public as a whole but instead toward groups and institutions. The idea was that people naturally function in groups and that groups naturally disagree. So the groups would organize themselves to the point that they could come to institutions—private and governmental—to ask for things, and the institutions would adjudicate their claims. It was only through this process that the market and the state could come into balance. Because endless negotiation and balancing of claims were built into the system, they were not supposed to take place in an atmosphere of bitter acrimony and deep mistrust.

There was obviously a lot about this ideal to generate dissatisfaction. Groups that hadn't formed potent organizations got ignored; there was no Natural Resources Defense Council or Southern Christian Leadership Conference when David Truman was writing *The Governmental Process*. Institutions were treated with an exaggerated respect. Individuals were made to bend too much to the demands of the community. Perhaps most frustrating, at least intellectually, every consequential arrangement represented some kind of compromise among the conflicting demands of groups. Nothing was truly efficient. Nothing had moral clarity. There were too many rules and procedures. Everything moved too slowly.

The dream of eliminating these flaws in the midcentury system was powerfully alluring, and it led to a reorienting of American society in many specific ways that, taken together, created the society we have now. I want to stress that, to my mind, this reorienting is not best understood as having been in a liberal or conservative direction. Both liberals and conservatives participated in it. The overall effect was, as Daniel Rodgers wrote, that "power was diminishing, time was foreshortening, structures could be remade in a virtual instant, people were a legible bundle of desires and preferences, choice was on the march."

The most important aspect of the reorienting of American society was (prospectively, though certainly not retrospectively) a relatively overlooked one: the freeing of investment capital from its previous constrictions by function, scale, geography, and time. Of the essential elements in a society, capital is by far the most mobile, far more so than people, or communities, or institutions. As capital moves around the globe and makes its natural demands, the other elements in society inevitably feel the effects, sometimes happily, sometimes not. I would not state the matter as dramatically as Karl Polyani did in *The Great Transformation*, his book about the Industrial Revolution's having created "a catastrophic dislocation in the lives of the common people" that necessitated the creation of the welfare state, but his formulation does have a good deal of present-day pertinence. To quote him again: "A blind faith in spontaneous progress had taken hold of people's minds, and with the fanaticism of sectarians the most enlightened pressed forward for boundless and unregulated change in society. . . . [H]uman society would have been annihilated but for protective counter-moves which blunted the action of this self-destructive mechanism."

The connection between our change in ethos and rising inequality seems obvious—at least conceptually obvious—to me. If you have ever read Michael Young's 1958 sociopolitical fantasy, *The Rise of the Meritocracy*, it's a good place to get the picture of what happens when a society orients itself around a single noble-sounding variable. The people who are situated so as to excel on that variable begin to prosper far more than everyone else, and that generates a sense of unfairness in everyone else as deep and profound as the sense of the fairness it generates in the beneficiaries. Our variable is privileging the rights of capital. And the way to conceive of a solution to this kind of social problem is to conceive of our basic social arrangements as compromises, respectfully arrived at, among institutions that have organized themselves effectively enough to have influence and staying power.

I don't mean to imply that the rise of a more transaction-oriented society has eliminated institutions or interest groups entirely. It has eliminated or weakened some institutions—Mark Mizruchi reminds us that one-third of the companies in the Fortune 500 disappeared in the 1980s, the decade when investors succeeded managers as the most powerful force in corporate America—and some interest groups, notably organized labor. But of course institutions and interest groups still exist. Microsoft and Amazon and Google and Yahoo! may be younger than General Electric and Ford Motor Company, but they are nonetheless big corporations with many component parts, some of which subsidize others, long-term employees, Washington lobbyists, and aspirations to permanence. One of my worries is that in America today, elites, who don't usually use a rhetoric that valorizes institutions, get to experience all the benefits they can confer, and everybody else has to live with the consequences of our suspicion of institutions' costly inefficiencies. Students at Stanford enjoy a far richer institutional life than do students at Foothill College.

The rise of the anti-institutional, antibureaucratic, anti–interest group turn of mind has led to insufficient thought being given to the social consequences of rapid institutional change—especially in the United

States, where we mistrust government institutions and have historically placed a heavy social burden on large business institutions. Not thinking about institutions also removes the question of concentration of economic and political power from the attention it deserves to have. A hundred years ago, there was an important debate between liberals who mistrusted centralized power in government and business, such as Louis Brandeis and John Dewey, and liberals who were the Transaction People of the day, such as Herbert Croly and Walter Lippmann, who believed that a strong, expert-staffed national government could successfully check the excesses of the trusts as to create a good society for all. I heard almost none of this argument in the wake of the financial crisis, which meant that the Lippmann-Croly side won: we wound up with a significantly more concentrated, and significantly more regulated, financial industry after the crisis than we had before. The same kind of concentration seems to characterize the Internet economy thus far.

I spend a lot of time around Transaction People, so I know the depth and certitude of their frustration with older institutions and groups. Why not sweep away the inefficient existing arrangements and just solve the problem? (Mancur Olson wrote a book in the 1980s called *The Rise and Decline of Nations*, which attributed the entire course of history to the ability of entrenched groups to paralyze powerful nations and instances of their disempowerment to turn second-rate powers into first-rate ones.) You can see evidence of this kind of thinking in the Obama administration's initial impulse to put special "czars" instead of cabinet secretaries in charge of the most pressing matters before the federal government. You can see it in the deep conviction of many people, especially in the financial and technology industries, that the vast American public education system is broken and that starting over with new nonunion, performance-graded charter schools is the only way to fix it. You can see it in the frustration that people in the human rights and environmental movements have with national governments and in the widespread belief that philanthropists, nongovernmental institutions, and "civil society" can do a better job at the traditional tasks of the democratic state. Transaction People have wonderfully copious access to all the standard ways of seeking influence; today's Organization People, whose influence lies more in their numbers than in the currency of their ideas, often react to the pace of change and their feeling of exclusion from it by clinging fiercely to what they have—pensions, tenure, trade barriers, and so on, all causes as mysterious to Transaction People as the agitation for a silver standard was to the Progressives—or by turning to populism, which seems to be on the rise throughout the developed world.

Few institutions can completely deny the charge that they are inefficient, rule bound, and slow to change. From a social point of view, that's part of the purpose of institutions. Most of them have to operate at the provincial, mundane level at which most people live out their lives. They can, and sometimes do, aim to provide a sense of continuity, purpose, and fairness—what Karl Polyani called "social protection," an essential benefit that includes but is not limited to economic well-being—that efficiency, mobility, and big ideas are not always so good at providing. Institutions create a degree of what psychologist Barry Schwartz calls "friction" as a counterweight to the pure force of the market. Treating them with respect, and using them as a first resort in devising responses to new problems and old needs, is the best way to build a healthy society, and one we need to rediscover.

I hope you haven't seen these lectures as an exercise in nostalgia. Even if I were personally nostalgic for the era I described in the first lecture, which I don't think I am, all social prescriptions that entail a restoration of conditions that existed at a period in the past are doomed to failure because history doesn't have a reverse gear. The corporation-dominated society of mid-twentieth-century America is gone forever, and along with it the economic security of very large businesses, and their ability to confer some of that security on their employees, is gone forever too. In democratic societies, if the basics of well-being are threatened, people will demand them, often in ways that seem out-of-date and impractical to Transaction People; the pleasure of living in a highly fluid society simply is not universally experienced. A great project of the years to come will be the playing out of these demands. This can proceed in any number of ways—through an enhanced welfare state, through conflict and democratic dysfunction, or through some other set of possibilities—but if we can begin to think of groups and institutions, some of which may be new ones but none of which will be entirely fluid, as the best of the tools available to us for executing the project, that will maximize the chance of a happy result.