10. Promoters, Managers, Technicians, and Bureaucrats

The entrepreneur hires the technicians, i.e., people who have the ability and the skill to perform definite kinds and quantities of work. The class of technicians includes the great inventors, the champions in the field of applied science, the constructors and designers as well as the performers of the most simple tasks. The entrepreneur joins their ranks as far as he himself takes part in the technical execution of his entrepreneurial plans. The technician contributes his own toil and trouble; but it is the entrepreneur qua entrepreneur who directs his labor toward definite goals. And the entrepreneur himself acts as a mandatary, as it were, of the consumers.

The entrepreneurs are not omnipresent. They cannot themselves attend to the manifold tasks which are incumbent upon them. Adjustment of production to the best possible supplying of the consumers with the goods they are asking for most urgently does not merely consist in determining the general plan for the utilization of resources. There is, of course, no doubt that this is the main function of the promoter and speculator. But besides the great adjustments, many small adjustments are necessary too. Each of them may seem trifling and of little bearing upon the total result. But the cumulative effect of shortcomings in many of these minor matters can be such as to frustrate entirely the success of a correct solution of the great problems. At any rate, it is certain that every failure to handle the smaller problems results in a squandering of scarce factors of production and consequently in impairing the best possible satisfaction of the consumers.

It is important to conceive in what respects the problem we have in mind differs from the technological tasks of the technicians. The execution of every project upon which the entrepreneur has embarked in making his decision with regard to the general plan of action requires a multiplicity of minute decisions. Each of these decisions must be effected in such a way as to prefer that solution of the problem which—without interfering with the designs of the general plan for the whole project—is the most economical one. It must avoid superfluous costs in the same way as does the general plan. The technician from his purely technological point of view either may not see any difference in the alternatives offered by various methods for the solution of such a detail or may give preference to one of these methods on account of its greater output in physical quantities. But the entrepreneur is actuated by the profit motive. This enjoins upon him the urge to prefer the most economical solution, i.e., that solution which avoids employing factors of production whose employment would impair the satisfaction of the more intensely felt wants of the consumers. He will prefer among the various methods with regard to which the technicians are neutral, the one the application of which requires the smallest cost. He may reject the technicians' suggestion to choose a more costly method securing a greater physical output if his calculation shows that the increase in output would not outweigh the increase in cost required. Not only in the great decisions and plans but no less in the daily decisions of small problems as they turn up in the current conduct of affairs, the entrepreneur must perform his task of adjusting production to the demand of the consumers as reflected in the prices of the market.

Economic calculation as practiced in the market economy, and especially the system of double-entry bookkeeping, make it possible to relieve the entrepreneur of involvement in too much detail. He can devote himself to his great tasks without being entangled in a multitude of trifles beyond any mortal man's range of sight. He can appoint assistants to whose solicitude he entrusts the care of subordinate entrepreneurial duties. And these assistants in their turn can be aided according to the same principle by assistants appointed for a smaller sphere of duties. In this way a whole managerial hierarchy can be built up.

A *manager* is a junior partner of the entrepreneur, as it were, no matter what the contractual and financial terms of his employment are. The only relevant thing is that his own financial interests force him to attend to the best of his abilities to the entrepreneurial functions which are assigned to him within a limited and precisely determined sphere of action.

It is the system of double-entry bookkeeping that makes the functioning of the managerial system possible. Thanks to it the entrepreneur is in a position to separate the calculation of each part of his total enterprise in such a way that he can determine the role it plays within his whole enterprise. Thus he can look at each section as if it were a separate entity and can appraise it according to the share it contributes to the success of the total enterprise. Within this system of business calculation each section of a firm represents an integral entity, a hypothetical independent business, as it were. It is assumed that this section "owns" a definite part of the whole capital employed in the enterprise, that it buys from other sections and sells to them, that it has its own expenses and its own revenues, that its dealings result either in a profit or in a loss which is imputed to its own conduct of affairs as distinguished from the result of the other sections. Thus the entrepreneur can assign to each section's management a great deal of independence. The only directive he gives to a man whom he entrusts with the management of a circumscribed job is to make as much profit as possible. An examination of the accounts shows how successful or unsuccessful the managers were in executing this directive. Every manager and submanager is responsible for the working of his section or subsection. It is to his credit if the accounts show a profit, and it is to his disadvantage if they show a loss. His own interests impel him toward the utmost care and exertion in the conduct of his section's affairs. If he incurs losses, he will be replaced by a man whom the entrepreneur expects to be more successful, or the whole section will be discontinued. At any rate, the manager will lose his job. If he succeeds in making profits, his income will be increased, or at least he will not be in danger of losing it. Whether or not a manager is entitled to a share in the profit imputed to his section is not important with regard to the personal interest he takes in the results of his section's dealings. His welfare is at any rate closely connected with that of his section. His task is not like that of the technician, to perform a definite piece of work according to a definite precept. It is to adjust—within the limited scope left to his discretion—the operation of his section to the state of the market. Of course, just as an entrepreneur may combine in his person entrepreneurial functions and those of a technician, such a union of various functions can also occur with a manager.

The managerial function is always subservient to the entrepreneurial function. It can relieve the entrepreneur of a part of his minor duties; it can never evolve into a substitute for entrepreneurship. The fallacy to the contrary is due to the error confusing the category of entrepreneurship as it is defined in the imaginary construction of functional distribution with conditions in a living and operating market economy. The function of the entrepreneur cannot be separated from the direction of the employment of factors of production for the accomplishment of definite tasks. The entrepreneur controls the factors of production; it is this control that brings him either entrepreneurial profit or loss.

It is possible to reward the manager by paying for his services in proportion to the contribution of his section to the profit earned by the entrepreneur. But this is of no avail. As has been pointed out, the manager is under any circumstances interested in the success of that part of the business which is entrusted to his care. But the manager cannot be made answerable for the losses incurred. These losses are suffered by the owners of the capital employed. They cannot be shifted to the manager.

Society can freely leave the care for the best possible employment of capital goods to their owners. In embarking upon definite projects these owners expose their own property, wealth, and social position. They are even more interested in the success of their entrepreneurial activities than is society as a whole. For society as a whole the squandering of capital invested in a definite project means only the loss of a small part of its total funds; for the owner it means much more, for the most part the loss of his total fortune. But if a manager is given a completely free hand, things are different. He speculates in risking other people's money. He sees the prospects of an uncertain enterprise from another angle than that of the man who is answerable for the losses. It is precisely when he is rewarded by a share of the profits that he becomes foolhardy because he does not share in the losses too.

The illusion that management is the totality of entrepreneurial activities and that management is a perfect substitute for entrepreneurship is the outgrowth of a misinterpretation of the conditions of the corporations, the typical form of present-day business. It is asserted that the corporation is operated by the salaried managers, while the shareholders are merely passive spectators. All the powers are concentrated in the hands of hired employees. The shareholders are idle and useless; they harvest what the managers have sown.

This doctrine disregards entirely the role that the capital and money market, the stock and bond exchange, which a pertinent idiom simply calls the "market," plays in the direction of corporate business. The dealings of this market are branded by popular anticapitalistic bias as a hazardous game, as mere gambling. In fact, the changes in the prices of common and preferred stock and of corporate bonds are the means applied by the capitalists for the supreme control of the flow of capital. The price structure as determined by the speculations on the capital and money markets and on the big commodity exchanges not only decides how much capital is available for the conduct of each corporation's business; it creates a state of affairs to which the managers must adjust their operations in detail.

The general direction of a corporation's conduct of business is exercised by the stockholders and their elected mandataries, the directors. The directors appoint and discharge the managers. In smaller companies and sometimes even in bigger ones the offices of the directors and the managers are often combined in the same persons. A successful corporation is ultimately never controlled by hired managers. The emergence of an omnipotent managerial class is not a phenomenon of the unhampered market economy. It was, on the contrary, an outgrowth of the interventionist policies consciously aiming at an elimination of the influence of the shareholders and at their virtual expropriation. In Germany, Italy, and Austria it was a preliminary step on the way toward the substitution of government control of business for free enterprise, as has been the case in Great Britain with regard to the Bank of England and the railroads. Similar tendencies are prevalent in the American public utilities. The marvelous achievements of corporate business were not a result of the activities of a salaried managerial oligarchy; they were accomplished by people who were connected with the corporation by means of the ownership of a considerable part or of the greater part of its stock and whom part of the public scorned as promoters and profiteers.

The entrepreneur determines alone, without any managerial interference, in what lines of business to employ capital and how much capital to employ. He determines the expansion and contraction of the size of the total business and its main sections. He determines the enterprise's financial structure. These are the essential decisions which are instrumental in the conduct of business. They always fall upon the entrepreneur, in corporations as well as in other types of a firm's legal structure. Any assistance given to the entrepreneur in this regard is of ancillary character only; he takes information about the past state of affairs from experts in the fields of law, statistics, and technology; but the final decision implying a judgment about the future state of the market rests with him alone. The execution of the details of his projects may then be entrusted to managers.

The social functions of the managerial elite are no less indispensable for the operation of the market economy than are the functions of the elite of inventors, technologists, engineers, designers, scientists, and experimenters. In the ranks of the managers many of the most eminent men serve the cause of economic progress. Successful managers are remunerated by high salaries and often by a share in the enterprise's gross profits. Many of them in the course of their careers become themselves capitalists and entrepreneurs. Nonetheless, the managerial function is different from the entrepreneurial function.

It is a serious mistake to identify entrepreneurship with management as in the popular antithesis of "management" and "labor." This confusion is, of course, intentional. It is designed to obscure the fact that the functions of entrepreneurship are entirely different from those of the managers attending to the minor details of the conduct of business. The structure of business, the allocation of capital to the various branches of production and firms, the size and the line of operation of each plant and shop are considered as given facts and it is implied that no further changes will be effected with regard to them. The only task is to go on in the old routine. In such a stationary world, of course, there is no need for innovators and promoters; the total amount of profits is counterbalanced by the total amount of losses. To explode the fallacies of this doctrine it is enough to compare the structure of American business in 1945 with that of 1915.

But even in a stationary world it would be nonsensical to give "labor," as a popular slogan demands, a share in management. The realization of such a postulate would result in syndicalism.[22]

There is furthermore a readiness to confuse the manager with a bureaucrat.

Bureaucratic management, as distinguished from *profit management*, is the method applied in the conduct of administrative affairs, the result of which has no cash value on the market. The successful performance of the duties entrusted to the care of a police department is of the greatest importance for the preservation of social cooperation and benefits each member of society. But it has no price on the market, it cannot be bought or sold; it can therefore not be confronted with the expenses incurred in the endeavors to secure it. It results in gains, but these gains are not reflected in profits liable to expression in terms of money. The methods of economic calculation, and especially those of double-entry bookkeeping, are not applicable to them. Success or failure of a police department's activities cannot be ascertained according to the arithmetical procedures of profit-seeking business. No accountant can establish whether or not a police department or one of its subdivisions has succeeded.

The amount of money to be expended in every branch of profit-seeking business is determined by the behavior of the consumers. If the automobile industry were to treble the capital employed, it would certainly improve the services it renders to the public. There would be more cars available. But this expansion of the industry would withhold capital from other branches of production in which it could fill more urgent wants of the consumers. This fact would render the expansion of the automobile industry unprofitable and increase profits in other branches of business. In their endeavors to strive after the highest profit obtainable, entrepreneurs are forced to allocate to each branch of business only as much capital as can be employed in it without impairing the satisfaction of more urgent wants of the consumers. Thus the entrepreneurial activities are automatically, as it

22. Cf. below, pp. 808–816.

were, directed by the consumers' wishes as they are reflected in the price structure of consumers' goods.

No such limitation is enjoined upon the allocation of funds for the performance of the tasks incumbent upon government activities. There is no doubt that the services rendered by the police department of the City of New York could be considerably improved by trebling the budgetary allocation. But the question is whether or not this improvement would be considerable enough to justify either the restriction of the services rendered by other departments—e.g., those of the department of sanitation—or the restriction of the private consumption of the taxpayers. This question cannot be answered by the accounts of the police department. These accounts provide information only about the expenses incurred. They cannot provide any information about the results obtained, as these results cannot be expressed in money equivalents. The citizens must directly determine the amount of services they want to get and are ready to pay for. They discharge this task by electing councilmen and officeholders who are prepared to comply with their intentions.

Thus the mayor and the chiefs of the city's various departments are restricted by the budget. They are not free to act upon what they themselves consider the most beneficial solution of the various problems the citizenry has to face. They are bound to spend the funds allocated for the purposes the budget has assigned them. They must not use them for other tasks. Auditing in the field of public administration is entirely different from that in the field of profit-seeking business. Its goal is to establish whether or not the funds allocated have been expended in strict compliance with the provisions of the budget.

In profit-seeking business the discretion of the managers and submanagers is restricted by considerations of profit and loss. The profit motive is the only directive needed to make them subservient to the wishes of the consumers. There is no need to restrict their discretion by minute instructions and rules. If they are efficient, such meddling with details would at best be superfluous, if not pernicious in tying their hands. If they are inefficient, it would not render their activities more successful. It would only provide them with a lame excuse that the failure was caused by inappropriate rules. The only instruction required is self-understood and does not need to be especially mentioned: Seek profit.

Things are different in public administration, in the conduct of government affairs. In this field the discretion of the officeholders and their subaltern aids is not restricted by considerations of profit and loss. If their supreme boss—no matter whether he is the sovereign people or a sovereign despot—were to leave them a free hand, he would renounce his own supremacy in their favor. These officers would become irresponsible agents, and their power would supersede that of the people or the despot. They would do what pleased them, not what their bosses wanted them to do. To prevent this outcome and to make them subservient to the will of their bosses it is necessary to give them detailed instructions regulating their conduct of affairs in every respect. Then it becomes their duty to handle all affairs in strict compliance with these rules and regulations. Their freedom to adjust their acts to what seems to them the most appropriate solution of a concrete problem is limited by these norms. They are bureaucrats, i.e., men who in every instance must observe a set of inflexible regulations.

Bureaucratic conduct of affairs is conduct bound to comply with detailed rules and regulations fixed by the authority of a superior body. It is the only alternative to profit management. Profit management is inapplicable in the pursuit of affairs which have no cash value on the market and in the non-profit conduct of affairs which could also be operated on a profit basis. The former is the case of the administration of the social apparatus of coercion and compulsion; the latter is the case in the conduct of an institution on a non-profit basis, e.g., a school, a hospital, or a postal system. Whenever the operation of a system is not directed by the profit motive, it must be directed by bureaucratic rules.

Bureaucratic conduct of affairs is, as such, not an evil. It is the only appropriate method of handling governmental affairs, i.e., the social apparatus of compulsion and coercion. As government is necessary, bureaucratism is—in this field—no less necessary. Where economic calculation is unfeasible, bureaucratic methods are indispensable. A socialist government must apply them to all affairs.

No business, whatever its size or specific task, can ever become bureaucratic so long as it is entirely and solely operated on a profit basis. But as soon as it abandons profit-seeking and substitutes for it what is called the service principle—i.e., the rendering of services without regard as to whether or not the prices to be obtained for them cover the expenses—it must adopt bureaucratic methods for those of entrepreneurial management.[23]

23. For a detailed treatment of the problems involved, cf. Mises, *Bureaucracy* (New Haven, 1944).

11. The Selective Process

The selective process of the market is actuated by the composite effort of all members of the market economy. Driven by the urge to remove his own uneasiness as much as possible, each individual is intent, on the one hand, upon attaining that position in which he can contribute most to the best satisfaction of everyone else and, on the other hand, upon taking best advantage of the services offered by everyone else. This means that he tries to sell on the dearest market and to buy on the cheapest market. The resultant of these endeavors is not only the price structure but no less the social structure, the assignment of definite tasks to the various individuals. The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day. The selective process never stops. It goes on adjusting the social apparatus of production to the changes in demand and supply. It reviews again and again its previous decisions and forces everybody to submit to a new examination of his case. There is no security and no such thing as a right to preserve any position acquired in the past. Nobody is exempt from the law of the market, the consumers' sovereignty.

Ownership of the means of production is not a privilege, but a social liability. Capitalists and landowners are compelled to employ their property for the best possible satisfaction of the consumers. If they are slow and inept in the performance of their duties, they are penalized by losses. If they do not learn the lesson and do not reform their conduct of affairs, they lose their wealth. No investment is safe forever. He who does not use his property in serving the consumers in the most efficient way is doomed to failure. There is no room left for people who would like to enjoy their fortunes in idleness and thoughtlessness. The proprietor must aim to invest his funds in such a way that principal and yield are at least not impaired.

In the ages of caste privileges and trade barriers there were revenues not dependent on the market. Princes and lords lived at the expense of the humble slaves and serfs who owed them tithes, statute labor, and tributes. Ownership of land could only be acquired either by conquest or by largesse on the part of a conqueror. It could be forfeited only by recantation on the part of the donor or by conquest on the part of another conqueror. Even later, when the lords and their liegemen began to sell their surpluses on the market, they could not be ousted by the competition of more efficient people. Competition was free only within very narrow limits. The acquisition of manorial estates was reserved to the nobility, that of urban real property to the citizens of the township, that of farm land to the peasants. Competition in the arts and crafts was restricted by the guilds. The consumers were not in a position to satisfy their wants in the cheapest way, as price control made underbidding impossible to the sellers. The buyers were at the mercy of their purveyors. If the privileged producers refused to resort to the employment of the most adequate raw materials and of the most efficient methods of processing, the consumers were forced to endure the consequences of such stubbornness and conservatism.

The landowner who lives in perfect self-sufficiency from the fruits of his own farming is independent of the market. But the modern farmer who buys equipment, fertilizers, seed, labor, and other factors of production and sells agricultural products is subject to the law of the market. His income depends on the consumers and he must adjust his operations to their wishes.

The selective function of the market works also with regard to labor. The worker is attracted by that kind of work in which he can expect to earn most. As is the case with material factors of production, the factor labor too is allocated to those employments in which it best serves the consumers. There prevails the tendency not to waste any quantity of labor for the satisfaction of less urgent demand if more urgent demand is still unsatisfied. Like all other strata of society, the worker is subject to the supremacy of the consumers. If he disobeys, he is penalized by a cut in income.

The selection of the market does not establish social orders, castes, or classes in the Marxian sense. Nor do the entrepreneurs and promoters form an integrated social class. Each individual is free to become a promoter if he relies upon his own ability to anticipate future market conditions better than his fellow citizens and if his attempts to act at his own peril and on his own responsibility are approved by the consumers. One enters the ranks of the promoters by aggressively pushing forward and thus submitting to the trial to which the market subjects, without respect for persons, everybody who wants to become a promoter or to remain in this eminent position. Everybody has the opportunity to take his chance. A newcomer does not need to wait for an invitation or encouragement from anyone. He must leap forward on his own account and must himself know how to provide the means needed.

It has been contended again and again that under the conditions of "late" or "mature" capitalism it is no longer possible for penniless people to climb the ladder to wealth and entrepreneurial position. No attempt has ever been made to prove this thesis. Since it was first advanced, the composition of the entrepreneurial and capitalist groups has changed considerably. A great part of the former entrepreneurs and their heirs have been eliminated and other people, newcomers, have taken their places. It is, of course, true that in the last years institutions have been purposely developed which, if not abolished very soon, will make the functioning of the market in every regard impossible.

The point of view from which the consumers choose the captains of industry and business is exclusively their qualification to adjust production to the needs of the consumers. They do not bother about other features and merits. They want a shoe manufacturer to fabricate good and cheap shoes. They are not intent upon entrusting the conduct of the shoe trade to handsome amiable boys, to people of good drawing-room manners, of artistic gifts, of scholarly habits, or of any other virtues or talents. A proficient businessman may often be deficient in many accomplishments which contribute to the success of a man in other spheres of life.

It is quite common nowadays to deprecate the capitalists and entrepreneurs. A man is prone to sneer at those who are more prosperous than himself. These people, he contends, are richer only because they are less scrupulous than he. If he were not restrained by due consideration for the laws of morality and decency, he would be no less successful than they are. Thus men glory in the aureole of self-complacency and Pharisaic self-righteousness.

Now it is true that under the conditions brought about by interventionism many people can acquire wealth by graft and bribery. In many countries interventionism has so undermined the supremacy of the market that it is more advantageous for a businessman to rely upon the aid of those in political office than upon the best satisfaction of the needs of the consumers. But it is not this that the popular critics of other people's wealth have in mind. They contend that the methods by which wealth is acquired in a pure market society are objectionable from the ethical point of view.

Against such statements it is necessary to emphasize that, so far as the operation of the market is not sabotaged by the interference of governments and other factors of coercion, success in business is the proof of services rendered to the consumers. The poor man need not be inferior to the prosperous businessman in other regards; he may sometimes be outstanding in scientific, literary, and artistic achievements or in civic leadership. But in the social system of production he is inferior. The creative genius may be right in his disdain for commercial success; it may be true that he would have been prosperous in business if he had not preferred other things. But the clerks and workers who boast of their moral superiority deceive themselves and find consolation in this self-deception. They do not admit that they have been tried and found wanting by their fellow citizens, the consumers.

It is often asserted that the poor man's failure in the competition of the market is caused by his lack of education. Equality of opportunity, it is said, could be provided only by making education at every level accessible to all. There prevails today the tendency to reduce all differences among various peoples to their education and to deny the existence of inborn inequalities in intellect, will power, and character. It is not generally realized that education can never be more than indoctrination with theories and ideas already developed. Education, whatever benefits it may confer, is transmission of traditional doctrines and valuations; it is by necessity conservative. It produces imitation and routine, not improvement and progress. Innovators and creative geniuses cannot be reared in schools. They are precisely the men who defy what the school has taught them.

In order to succeed in business a man does not need a degree from a school of business administration. These schools train the subalterns for routine jobs. They certainly do not train entrepreneurs. An entrepreneur cannot be trained. A man becomes an entrepreneur in seizing an opportunity and filling the gap. No special education is required for such a display of keen judgment, foresight, and energy. The most successful businessmen were often uneducated when measured by the scholastic standards of the teaching profession. But they were equal to their social function of adjusting production to the most urgent demand. Because of these merits the consumers chose them for business leadership.

12. The Individual and the Market

It is customary to speak metaphorically of the automatic and anonymous forces actuating the "mechanism" of the market. In employing such metaphors people are ready to disregard the fact that the only factors directing the market and the determination of prices are purposive acts of men. There is no automatism; there are only men consciously and deliberately aiming at ends chosen. There are no mysterious mechanical forces; there is only the human will to re-