CHAPTER 1

Sloanist Market Regulation

The institution of monopoly capitalism has been linked to the U.S. economy's postwar recovery. This concept denotes a transition from a competitive and unregulated market environment to one that rationally regulates price competition among firms. "Monopoly capitalism" is the catchword denoting this rationally regulated environment. Its components are the Keynesian welfare/warfare state, which buffers—often half-heartedly—the effects of the business cycle with countercyclical fiscal policies,[1] and the modern firm, which regulates market competition through both vertical and horizontal integration and through collaborative price-fixing and market-sharing schemes.[2] Just how these structures work to buffer competitive dynamics, however, remains vague in most formulations. I sharpen this conceptual imagery here so as to better illuminate auto industry developments in the United States.

Historical Factors Selecting the Form of Market Regulation

A transition from a competitive and unregulated market environment to a rationally regulated one involves a shift in firm managers' action orientations. Within an unregulated market environment, managers act instrumentally and rationally, calculating their courses of action so as to achieve their

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desired ends, and choosing appropriate means for accomplishing these ends. Such actors relate to others in their action fields as objects to be manipulated in pursuit of these ends. They do not take into account the interests of these others when choosing their courses of action.

This rational, self-oriented pursuit of immediate interests creates an environment that threatens the long-term interests of all involved. As Marx and others have pointed out, this orientation leads to overproduction crises and depressions, once firms invest heavily in capital intensive production processes. During such crises, firms quickly stockpile inventories and face the prospects of tremendous loss. In turn, they slash prices, cut wages and increase worker exploitation to reduce production costs. Such actions, while rationally consistent with the firms' immediate interests, tend to damage their long-term prospects. Over the long haul, they reduce aggregate demand, drive the rate of profit down, and discourage investment.

Action orientations become more civic within a rationally regulated market environment. As in the unregulated environment, company managers calculate their courses of action rationally so as to achieve desired ends consistent with their interests. Unlike in the unregulated environment, however, they take the interest of competitors into account when doing so. They aim to pursue courses of action that will benefit their immediate self-interests without threatening competitors' opportunities. They steer toward courses of action that are calculated to reduce the threat of losses and reduced profits for the industry as a whole.

Firms may commit to courses of action consistent with this more civic orientation in a number of ways. This can occur, for example, when a firm's autonomous decision-making prerogatives are taken over by an external planning agent. In this case, the external agent—a state, a cartel, or a monopoly firm—regulates market competition by prescribing courses of action for subordinates to follow. Coercion—or its threat—is at the root of a company's compliance with these prescriptions.

Although the U.S. auto industry has experimented with it, this type of prescriptive regulation has proven to be incompatible with the political traditions legitimating the exercise of power in American society. Richard Hofstadter

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describes these traditions as "the sanctity of private property, the right of the individual to dispose of and invest it, the value of opportunity, and the natural evolution of self-interest and self-assertion."[3] In the auto industry, the opponents of external regulation have mobilized these traditions to delegitimate it.

The industry has experimented with at least two prescriptive regulatory structures in its history. The first was a trade association that acted as a cartel to control the actions of its members. It regulated entry, prescribed production quotas, and set standard prices. The earliest of these—and perhaps the only one to exert influence—was the Association of Licensed Automobile Manufacturers which acquired the rights to the Selden patent, a patent awarded in 1879 on an early motorized vehicle design. ALAM attempted to control the industry by extending the Selden patent's jurisdiction to all firms manufacturing motorized vehicles.[4] The second type of prescriptive regulation involved the state's active intervention in prescribing and planning firms' courses of action. Moves toward this regulatory form were made during the early 1930s under Roosevelt's National Recovery Administration, again in 1946 when the Office of Price Administration attempted to enforce price ceilings on auto sales, and once again during the Korean War when Truman's National Production Authority (and later his Office of Price Stabilization) controlled auto production with quotas and price schedules. The NRA represented the most comprehensive of these attempts. Under the NRA, the automobile firms were required to participate in a trade association holding the authority to regulate production, pricing, wages, and collective bargaining.[5]

External regulation in auto manufacturing failed miserably. The early trade associations proved incapable of forcing independent manufacturers to comply with their regulations. Renegade manufacturers mobilized support against these regulatory associations from other manufacturers and from the public at large.[6] Even the federal government had difficulties in forcing manufacturers' compliance. The NRA failed. The only agreement reached in the auto industry was to a minimum wage below what most firms were paying at the time.[7] Ford adamantly refused to participate in even this limited form of cooperation, and the federal government

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proved to be incapable of forcing Ford's compliance.[8] The OPA's 1946 attempt to control pricing was abandoned late in the year because of the agency's inability to force firms to comply. The production and price controls put into effect during the Korean War were also quickly abandoned for similar reasons.

There were a number of reasons for these failures. One was simply that the industry was too large and unstable in its early years for an external agent to control production schedules, pricing, wages, and other factors. Another was timing. Auto firms began to consolidate after the antitrust movement had gained political strength and influence. Another reason was that intransigent firms successfully mobilized popular support whenever they took a stand against external regulation. This ability may be explained by the hold of distinctive political traditions on the American public, such as the sanctity of private property, the freedom to use one's property as one sees fit, the freedom to take advantage of opportunities, and the freedom to pursue self-interested goals without external interference. These traditions may have functioned to limit the range of developmental courses open to the industry, thus blocking the path to external and prescriptive regulation.

Hegemonic Market Regulation and Its Sloanist Form

Firms may acquire the civic orientation necessary for rational market regulation in another way. Their managers may internalize such an orientation and willfully pursue courses of action that are consistent with it. This may take place when firm managers commit themselves to a strategy for manufacturing and marketing their products that is capable of coordinating the pursuit of their individual interests to the industry's collective interest. Following Gramsci,[9] such strategies are labeled *hegemonic*. Firm managers commit to such strategies because they believe that their interests will be better served by them than by other available alternatives.

When a hegemonic strategy is adopted by all of the major manufacturers competing within a given market, a market-regulating structure emerges. The coordinating mechanism

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of the structure is the hegemonic strategy or ideology. Such a hegemonic structure does not reproduce itself by relying on the coercive power of an external agent, nor does it encroach upon the decision-making autonomy of its firms. Rather, the hegemonic structure generates active consent from its constituent firms. Unlike the types of prescriptive structures already discussed, the functioning of such a structure is compatible with the values of American political culture.

Prior to World War II, two distinct hegemonic ideologies competed for dominance over the auto industry. Both Henry Ford, after 1908, and Alfred P. Sloan, after 1921, propagated distinct strategies for producing and marketing automobiles that took on the qualities of hegemonic programs.[10] Both Ford and Sloan attempted to persuade their competitors to adopt their respective business strategies as their own, arguing that their individual interests—and the interests of the industry as a whole—would best be served by doing so. Both Ford and Sloan believed that their respective strategies offered the industry an escape route from the destructive consequences of unregulated market competition. Ford's strategy—involving mass-production of a single product line, volume expansion through price cutting, constant productivity enhancing innovation, and high wage policies to stimulate demand—was discredited and abandoned by the end of World War II. Sloan's strategy triumphed and structured subsequent industrial developments with varying degrees of success.

At this point, I will define as an *ideal type* the essential features of Sloan's strategy which are its business goals, definition of the market situation, and defining characteristics. I will also examine how commitments to this strategy at the company level produces and reproduces a market-regulating industrial structure, specifying both the developments necessary for this structure to emerge and reproduce itself, as well as those tending to break it down.

The ideal type developed here is a heuristic concept for use in explaining complex historical development. The extent to which actual cases conform to its characteristics is an empirical question. The ideal type serves as a reference category in subsequent chapters for discerning when a Sloanist regulatory structure was in place, the extent to which it was in place, when it broke down, and what difference it made to labor process development.

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The Sloanist Business Strategy

The term "Sloanism" designates the general business strategy which Alfred P. Sloan developed in the 1920s as GM's president. Sloanism reflects the concerns and cautions of a firm that experienced near disaster during economic crises in its formative years. It is a firm-level strategy for buffering the effects of the business cycle on profit margins, and it aims, above all else, to protect the investments of its capital investors. It aims to earn steady profit rates from such investments.

Sloanism begins with three sets of assumptions about the nature of the auto market. First, Sloanism anticipates the development of a society composed of a variety of differentiated market classes. Variations in income, tastes, and needs define these classes. These anticipated variations lead Sloanists to envision several markets for basic sources of transportation. Second, Sloanism anticipates an open and fluid social structure and a rising level of income.[11] These conditions create a market demand for products that reflect the rising aspirations and pretensions of a society "on the make." They enable a large number of buyers to afford and demand increased luxury, comfort and performance, even when these items significantly increase prices. Third—and given this definition of the market—Sloanism perceives the potential demand for any given auto line as limited and unstable. It sees little potential for stabilizing this demand over an extended period. The changes in tastes and desires afforded by a rising standard of living and upward mobility fuel this instability.

Given Sloanism's definition of the market situation, and its basic interest in assuring high rates of return on investment capital, the following strategies are quite rational. When auto firms adopt them, we consider them as being Sloanist.

First, acting in ways that maintain the price structures required to assure high rates of return on their investments, Sloanists avoid head-on price competition with their competitors. They segment the market into distinct classes that correspond to the differentiated market classes existing in society. They then selectively enter those segments that are not overcrowded, targeting only portions of those which they calculate to be safe.[12] They also compete in new mar-

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kets—not with competitive pricing, but with styling and product innovations—attempting to create untapped niches from existing market segments. This minimizes the risk of price competition driving down their profit margins.

Second, Sloanists blanket the market, targeting a variety of market classes with multiple product lines. This buffers against the potential for market fluctuation to harm investment returns, protecting the firm from a product failure in a single segment—something perceived of as being likely within the Sloanist definition of the market situation. This strategy detaches the fate of the firm from the fate of any particular product line.

Third, Sloanists invest their creative energies in improving the autos they market. They assure demand for their products by changing them frequently and by improving their styling and surface appearances. This is rational behavior, given the definition of the market situation which such firms embrace.

Fourth, Sloanists are not profit maximizers. They do not continually invest in business expansion up to the point where they can only break even on an additional increment of investment. Rather, Sloanists desire to earn high rates of return on these investments. They will expand their businesses only if that expansion will not threaten these rates.[13] They will not sacrifice profit rates for expansion, even when expansion promises them higher aggregate profits.

Fifth, Sloanists are instrumentally rational within the firm. They regard all operations solely as a means of earning steady return rates on capital. Sloanists do not make unconditional commitments to maintaining wage and employment levels, to production schedules, or even to staying in the market. They are free to deploy, reorganize, and reinvest resources in ways that optimize return rates, regardless of the consequences for those whom they employ.

The Sloanist Managerial Organization

Sloanists organize investment decision making in the following manner. Before investment and production commitments, they calculate (1) anticipated costs, (2) the extent of the potential market for the proposed product at various price levels, and (3) the price and volume that will enable them to earn the desired return rates. If these calculations

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suggest that the market for the proposed product will sustain sales at the volume and price levels required to meet the desired rate of return, Sloanists invest in it. If not, they look for more favorable opportunities elsewhere.[14]

Sloanists organize their business practices so that they buffer the effects of risk upon their operations. They reduce the risk of fixed-cost investments by making investment decisions contingent upon the forecasting of long-term market conditions, and by employing a statistical estimate in their pricing calculations referred to as "standard volume." Standard volume estimates the proportion of the firm's production capacity that it will realize during the period in which its investments amortize. Sloanists buffer the risks of making inaccurate long-term forecasts by using very conservative estimates of standard volume. GM's estimate of standard volume in the early postwar period, for example, presumed no more than a 64 percent long-term utilization of production capacity.[15] This was the estimate employed to determine the price levels required to make the 20 percent return rate which GM targeted.[16]

In contrast to fixed-cost investment calculations, the time frame involved in variable-cost calculations is short. Auto firms build huge inventories in very short order, and production schedules geared to inaccurate forecasts can cause incredible losses.[17] Realizing that long-term market forecasts are at best speculative, Sloanists do not set their actual production schedules to such forecasts. Instead, they set production schedules to short-term forecasts that account for immediate production and market conditions.[18] This enables the general office to spot decreases in demand and to halt quickly the stockpiling of inventory.[19] In sum, Sloanists control fixed-cost and variable-cost risks by making investment decisions contingent upon the forecasting of long-term and short-term market demand, through buffering their operations from miscalculated forecasts with conservative standard volume estimates, and through developing information feedback loops that detect and correct miscalculations in such forecasts.

The Sloanist managerial organization involves a division of labor between two sets of critical managerial functions: (1) coordination, forecasting and monitoring; and (2) the making and selling of products.[20] The general office performs the first set of functions far removed from the point of production and sales. It determines and promulgates general policy,

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provides the forecasts used to guide the firm's operation and investment decisions, and monitors statistically the performance of its invested capital by calculating the rate of return which each unit earns.[21]

Within the statistical controls set by the general office, operations managements in Sloanist divisions hold far-reaching discretion and autonomy in accomplishing their objectives—the actual production and marketing of automobile lines. Aside from general policies and guidelines, the general office does not prescribe divisional managements' day-to-day practices or courses of action. It merely watches both market and inventory statistics closely for signs of depressed sales and operations' managements' rate-of-return-on-investment statistics. If these statistics indicate favorable markets and desired investment returns, the general office allows divisional managements to continue producing results with minimal interference. If these statistics indicate market slowdowns, it brakes production. If they indicate undesirable returns, it makes personnel changes.

The Sloanist managerial structure, then, is best thought of as hegemonic. It wins the active commitment of a variety of diversely skilled management personnel with potentially divergent interests and aims to a common end—a high rate of return on the firm's capital investments. The Sloanist structure does this by clearly defining and rewarding the types of goal-oriented performances which it requires, by generating a consensus on the objective indicators used to monitor and reward managerial performance, and by granting those with operational skills a wide-ranging discretion and autonomy in pursuing the desired ends.

This section has defined the business strategy and structure Alfred P. Sloan originally put into practice at GM in the 1920s as an ideal type. The extent to which a given firm conforms to it is the extent to which it will be considered as being Sloanist.

From Firm-Level Strategy to Systemic Regulation

We move now to a discussion of Sloanism as a mechanism for regulating interfirm competition. What happens to an

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industry when its dominant firms adopt Sloanism as their action-orienting definition of the market situation?

To illustrate this, consider the actions of four company managements in two distinct sets of market conditions. Two of the managements are Fordist, two Sloanist. One Fordist and one Sloanist management are dominant producers with superior production capacities. One Fordist and one Sloanist management are weaker competitors. The distinctive market conditions confronting the four firms are, on the one hand, market expansion and, on the other, market saturation and/or contraction. Each firm's management acts rationally in this illustration and in accordance with its respective definition of the market situation.

The Fordist firms' managements act the same way under both market conditions. They maintain commitment to the single product line for which they have invested considerably in fixed-cost plant and technology. Under periods of market expansion, both Fordist managements respond by increasing their production capacities on their particular product lines. They reinvest profits in these lines and expand accordingly. This growth is fueled by reduced prices for their automobiles. Such price decreases are made possible by cuts in production costs attained through increasing economies of scale and process innovations.

Under periods of saturation and/or contraction, Fordists firms continue to produce at the production schedules for which they have invested, dropping prices to whatever level it takes to clear inventories. Under these conditions, Fordist firms attempt to profit through cutting production costs to the level that enables them to employ the resources which they have committed to production. As production proficiency increases under the new conditions, profit margins are expected to improve gradually.[22] While wrenching in its consequence, this response is rational, given the Fordist assumption of a product-specific market.

In contrast, each Sloanist firm acts differently in each market situation. Under a condition of expansion, the dominant Sloanist firm's management attempts to predict, not only the degree of expansion, but the actions of its competitors. The dominant Sloanist management then positions its products in those segments of the market which are predicted to earn the highest return on investment. To reap the

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anticipated returns, the dominant Sloanist firm refrains from over-investment or from provoking competitors to take action that will spoil its markets. It picks the best market segments for itself, but leaves ample market opportunities for weaker competitors. This is rational behavior, given the Sloanist definition of the market situation already discussed. The goal of the dominant Sloanist firm's management is not to control the market, but to choose only those portions of it that will return high profits.

The weaker Sloanist competitor will also attempt to maintain high investment returns in this situation. However, its management watches the dominant producer closely and targets those segments which it leaves alone. Often, the weaker Sloanist firm will target a market segment untapped by the existing producers, or it will attempt to split off buyers from two adjacent segments with a novel or innovative product. This enables the weaker firm to avoid head-on price competition with the larger, stronger competitors and still earn an acceptable rate of return on investment. When the new market segment pays off handsomely—and the dominant producers enter in response—the weaker Sloanist firm will reposition its product lines in new, untapped segments. The weaker Sloanist management will also reinnovate in order to protect its earning rates.

Managements of both Sloanist firms act similarly under conditions of market saturation or contraction. When an existing market segment becomes saturated, rather than maintain their positions within the segment with price-cutting strategies, both dominant and weaker Sloanist firms respond by searching for new markets and classes of buyers. This avoids price competition and the lower return rates that inevitably follow.

When the total market declines or collapses, both dominant and weak Sloanist firms will act to protect their investments as well. If they are effective at forecasting future demand levels, they will retreat from the market in orderly fashion as it declines. They cancel fixed-cost investments, and, if need be, shut down production schedules completely. This enables them to avoid ruthless price competition and protect the profit rates earned on fixed investments.

Thus, by respecting established market shares—and by rationally and selectively pursuing business in market seg-

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ments that support high profit margins for themselves—Sloanists respect and take account of the actions and interests of their competitors in making fundamental business calculations and decisions. When all adopt the Sloanist strategy, such rational accounting assures the industry of access to stable markets that can provide the rates of return desired. The Sloanist orientation leads firms collectively to avoid overcrowding market segments, thereby discouraging the price competition and reduced profit margins that follow from such overcrowding. The rational self-interested pursuit of Sloanist ends protect competitor's interests as well. When the major firms in a given industry embrace Sloanism, market competition becomes self-regulated without external prescription. Sloanist firms' managers accept the balance of competitive forces existing in the market arena, and their Sloanist strategies tend to balkanize the product markets which they target.

Of course, this self-regulating tendency is not as simple to establish in actual practice as is presented here. There are four primary threats to Sloanism's regulatory efficacy at the industry level: (1) overproduction/underconsumption crisis tendencies, (2) unstable field conditions, (3) what I refer to as the "champion's dilemma," and (4) interest group dynamics within a firm's managerial structure.

The first threat relates to the inability of Sloanism to stimulate depressed demand during downswings of the business cycle. Sloanists respond to depression conditions in ways that protect their capital investments. If this is impossible, they reduce losses by halting production schedules and investments until favorable conditions return. While these strategies prevent ruthless competition from driving profit margins down, they do nothing to stimulate demand and the return of prosperity.

Structures outside the firms emerged in the United States after World War II to mitigate this threat and regulate its manifestations. Although playing a more central regulatory role in Western Europe than in the United States, these structures were the Keynesian state, and the collective bargaining system patterned after the historic UAW-GM contract of 1948. This collective-bargaining system indexed wage levels systematically to annual increases in productivity levels. Others have dealt with this type of regulatory develop-

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ment,[23] and this will not be of central focus to our concerns. It must suffice to note that such macrolevel economic regulation is a requisite foundation for the types of developments on which we focus.

The second threat is an unstable field of action that precludes Sloanist firms from calculating and predicting accurately the effects of market conditions on their anticipated investment returns. Such a field threatens Sloanists firms' abilities to avoid courses of action that provoke destructive price competition and slash profit margins. When the industry is relatively new and unstable, supports a large fluctuating number of competing firms, and has yet to establish effective barriers to entry, it becomes difficult to forecast resulting market conditions with any precision. Miscalculation becomes the inevitable norm, and such miscalculation engenders overcrowded market segments and subsequent price competition.

To serve as a hegemonic industry-regulating force, then, Sloanism requires an environment in which the actions of firms in the industry are predictable. This functional requirement leads me to hypothesize that: (1) the number of firms operating in the industry must be restricted in order for Sloanism to regulate it effectively, and (2) Sloanism will be most effective in those cases in which a single Sloanist firm dominates and can influence the actions of its competitors. This dominant firm—the hegemon—must lead in establishing prices and in delimiting its market segments and shares.[24] Fearing unbridled competition with this hegemon, the less powerful firms in a given industry react accordingly. They accept the hegemon's price structures and established market segments and pursue those it leaves for them. They do this because they believe that their interests will be best served by doing so. This type of relationship developed in auto in the postwar period.[25] I will trace its development and consequences in subsequent chapters.

However, this relationship structure is inherently unstable. What is to prevent the industry's hegemon—dominant in size, market penetration, and productive forces—from invading its competitors' market, especially when such a firm could maintain high profit margins and undercut its competitors' prices without much sacrifice? Pursuing such a course would be instrumentally rational, especially in situa-

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tions in which the dominant firm's production capacities are underutilized. It would, however, undermine the efficacy of Sloanism as a regulatory structure—but nothing welds such a firm's commitment to this structure indefinitely. Indeed, as argued later in this chapter, power dynamics within a firm's managerial structure may function to undermine such commitments.

This is the third threat to Sloanism as a market-regulating mechanism—the threat of the champion's dilemma. The power to mitigate this threat—the power to force or persuade the hegemon to steer a civic course of action when its self-interests might steer it away from such a course—will most likely lie outside of the industrial arena and in the hands of external agents capable of forcing firms' compliance with their mandates.

The state is the likely candidate to play this role. It intervenes to prohibit dominant firms from pursuing courses of action threatening to the balance of competitive forces established by Sloanist industrial regulation. In the U.S. context, this involved the state prohibiting disruptive action by industrial hegemons without prescribing their day-to-day practices or their alternatives courses of action. Following Fligstein's general treatment of this issue,[26] I argue that this limited intervention and its continued threat was critical in shaping the auto industry's regulatory structure in the post–World-War-II period.

The fourth threat comes from within the managerial structure of powerful firms within a Sloanist-regulated industry itself with two distinct managerial groups, motivated by quite different sets of interests, competing for power and policy influence.[27] The first group is involved directly in producing and selling the firms' products, and it defines its interests as linked to the particular products which it produces and sells. It aims to extend these products' influence.

The second interest group—finance—is detached from the material side of capital accumulation. It identifies with capital in its abstracted, reified form—that is, its money form. It views the local, national, or even international arenas within which it transacts business as an open market for its investment capital. It aims to invest in those ventures that can promise the highest rates of return. This finance management's commitment to a particular business venture is

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instrumental and contingent upon the rate of return which it earns. It does not see its interests as being linked unconditionally to any material medium—or business—through which capital develops.

The interests, goals, and definitional frameworks of these groups stand in perpetual conflict. Expansion serves the interests and aims of the product-centered management, and this management tends to steer firms toward expansionary policies. Sloanism's primary aim, however, is not business expansion per se, but producing high rates of return on investment. It attempts to create and stabilize market conditions that will provide a favorable climate for such returns, even at the expense of restricting expansion. Because of this, finance management tends to embrace Sloanism and champion its viability. When confident in its own abilities to make and sell its products, product-centered management tends to view such a strategy as overly restrictive and limiting in its potential influence.

While this interest conflict may be subordinated at times to a hegemonic organizational form—such as that developed by GM in the 1920s—it always threatens to surface and can lead, as we shall subsequently see, to the subordination of the interests of one faction to the other. The effectiveness of the decentralized managerial structure as a hegemonic organization uniting the interests of both factions has proven to be much more limited than Sloan anticipated, as subsequent chapters in this book will clearly show.

The critical point is that, when product-centered management wins the interest group struggle and dominates firm-level policy decisions, it tends to pursue expansionist policies that undermine Sloanism's regulatory capacities. For Sloanism to function effectively at the industry level, it may be necessary for finance management to gain dominance and put tight reigns on the product-centered faction. The outcomes of such factional struggles will take center stage in subsequent chapters of this book.

In sum, the establishment and maintenance of a Sloanist market-regulating structure is quite problematic. The macroeconomic, industry-level, and firm-level conditions previously specified must all materialize and stay in place in order for such a structure to work effectively. At the macroeconomic level, this involves, at a minimum, the establishment

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and maintenance of sufficient aggregate-level demand, effective national-level regulatory policy, as well as developing and legitimating institutions that police firm-level behavior in a nonprescriptive but effective way. At the industry level, this involves, at a minimum, oligopolistic closure by a relatively small number of firms, effective barriers to entry, the stabilization of market segments and shares, and industry-wide firm-level commitments to Sloanism. At the firm level, this involves the development of effective techniques for forecasting demand, monitoring operations with regard to the rates of return which they earn, and controlling expansionary impulses. It also involves balancing power between managerial interest-group factions in a way that wins their active consent to policies that may not serve their fundamental interests.

Given these difficult contingencies, one might question the prospect of Sloanist regulation ever manifesting itself in actual practice. Indeed, such regulation has been problematic, often short-lived, and mostly ineffective. However, I contend that such a regulatory structure did emerge by the end of World War II as a viable alternative to unbridled, free-market competition, and that the industry practiced it thereafter—off and on with varying degrees of success—until the mid-1970s oil crises triggered restructuring. In the next section of this chapter, the historical developments that catapulted Sloanism onto the industrial stage as a viable program of hegemonic regulation are discussed. In subsequent chapters, I use the Sloanist ideal type as a reference category for assessing actual market-level developments.

The Prehistory of Hegemonic Market Regulation

The period spanning 1929–1945 was critical in shaping the structure that emerged to regulate postwar competition in the auto industry. The Great Depression hit the industry hard. There were forty-four major auto firms at the Depression's onset. By 1945, there were only eight. All were forced to reshape their marketing policies and organizational structures during the catastrophic ordeal, and all but GM came out of it weakened.

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By 1946, auto firms were willing to participate in an industrial structure offering protection from the ruthless rounds of competition which they had experienced during the Great Depression. All were willing to accept GM's role as the industry's price setter, and most were willing to respect one another's established market shares. After experiencing conditions that drove them to the brink of insolvency, they defined such courses of action as best serving their interests.

Oddly enough, the major obstacle to Sloanist regulation after the war was GM itself. GM had veered away from Sloanist marketing practices during the Depression, embracing instead competitive and expansionist policies. GM displaced Ford as the industry leader, and its size, cost, and power advantages grew substantially throughout the Great Depression ordeal.

By 1946, GM was in a position to pursue successfully either a competitive/expansionist or a Sloanist strategy. Had it desired to exploit its cost advantages through competitive pricing, GM would have caused its competitors grave hardships and might have propelled itself to a monopoly position. GM was in a position in 1946 to pursue the more civic Sloanist courses of action as well. If it chose to act as the industry's hegemon firm, it could have realized high profit margins and stabilized interfirm relations, and could have benefited the financiers holding controlling interest in GM's voting stock, as well as those heavily invested in all but one of the surviving auto firms, namely Ford.

The Depression ordeal had created the stability required for the effective functioning of Sloanist regulation. High concentration, prohibitive entry costs, and secure membership enabled accurate forecasting of market conditions and investment calculations. GM's power advantage would likely discourage its weaker competitors from pursuing disruptive courses of action that would encourage price competition and upset the emerging balance of power. GM also had uncontested access to the safest and most lucrative markets in the industry. Unable to challenge GM's market share or price leadership, competitors had little choice but to target those market segments which GM had left behind. This proclivity would protect the price levels that GM used in its investment calculations and assure it of anticipated profit margins.

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To understand why GM reembraced Sloanist marketing policies, we must turn to a power outside of the industry—the Roosevelt administration. After 1936, and through antitrust enforcement, this administration prohibited firms from pursuing expansionary policies disruptive to the balance of competitive forces established in major industries.[28] More than any indigenous development, this welded GM's commitment to Sloanism.

Market Collapse and Transformation

Following the 1929 stock market crash, the demand for automobiles collapsed. Industry sales dropped in 1932 to one third of their 1929 level. Auto sales began to recover in 1933, and this recovery continued into 1937. The recovery halted in late 1937 and depression conditions returned in 1938 and 1939. The industry began to recover in 1940, and the World War II years offered much needed relief. Government contracts enabled those hardest hit to recover and prosper on protected margins. Civilian auto production was suspended from 1942–1945, as auto firms engaged in war production. This created a tremendous demand for automobiles after the war, for, by 1946, more than 50 percent of the cars on the road were older than seven years.[29] This seller's market provided the space needed for the remaining firms to survive and prosper. It even created room for two new entries—Kaiser-Frazer and Crosley.

GM's Responses

Armed with Sloanist forecasting techniques, GM's general office actually anticipated the industry's sales decline prior to the October 1929 crash. GM's general office immediately began to formulate its policies for responding to the ensuing Depression. It halted fixed-cost capital investments and began to adjust its production schedules. In this way it judiciously avoided overproduction throughout the worst Depression years. From 1929 to 1932, GM's sales declined by 72 percent. Throughout most of 1932, GM operated at only about 30 percent of its production capacity. Yet, even with this decline, GM protected its capital investments. It did not register a loss at the firm level during any Depression year.[30]

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However, a simple policy of capital withdrawal and restraint was not an adequate strategy for attaining market success under the altered conditions. GM won success during the late 1920s in a market that supported its Sloanist upgraded-car policy. In 1926, for example, 48 percent of GM sales were in the higher priced market segment.[31] Unlike Ford, GM preferred this segment because it returned much higher margins.

However, Depression conditions collapsed this market segment. In response, GM was forced to downshift to the low-priced segment and restructure itself to compete there. Accordingly, GM placed the bulk of its lines in the lower priced segment, reduced its body shells to three, and centralized purchasing and manufacturing.[32] GM profited on its lower priced lines by increasing production economies. These economies were made possible through standardizing parts used by the divisions, sharing basic bodies, and renewing emphasis on productivity and labor exploitation.[33] The cost savings of this standardization were considerable, and GM gained competitive advantage.

The Auto Industry and Roosevelt's New Deal

To understand why GM abandoned its competitive/expansionist policies and reverted to Sloanism at the end of World War II, we must examine the relationship that developed between GM and Roosevelt's "New Deal" administration. It is common knowledge that Roosevelt responded to the Great Depression crises with two distinctive recovery programs. During his first term, Congress enacted Roosevelt's National Industrial Recovery Act. During his second term, Roosevelt embraced a strong antitrust policy.

The NIRA called for the establishment of institutions for regulating the business activities that many in the Roosevelt administration thought to be responsible for causing the severe depression—unregulated expansion, overproduction, cut-throat price competition, and wage slashing. The Act established the National Recovery Administration to oversee the establishment of trade associations in major U.S. industries. These associations were to set prescriptive codes for regulating firms' pricing, production, and labor relations

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practices. The NRA encouraged all firms in the designated industries to participate actively in the establishment of these codes. It granted the trade associations authority to enforce compliance.

Sidney Fine chronicles the auto industry's experience under the NRA.[34] He shows that the major auto firms railed against the NRA as a socialistic infringement on their rights and liberties. They participated reluctantly, if at all, in establishing the industry's meager regulatory codes. They pressured Roosevelt into promulgating labor regulations that allowed company unions. They also supported Roosevelt's Republican opponent in the 1936 election. This opposition created a hostile relationship between the major auto firms and the administration.

When the Supreme Court ruled the NRA to be unconstitutional, the Roosevelt administration's orientation to industrial regulation shifted. The administration abandoned its attempt to create a cooperative relationship between industry and government. Instead, it committed itself to employing punitive sanctions against firms pursuing destructive courses of action. It shifted to a mildly prounion policy.[35] Most importantly, Roosevelt's second recovery program involved a renewed commitment to enforcing the nation's existing antitrust laws. The Roosevelt administration was especially diligent in enforcing the antitrust violations of those that had opposed it.

By 1937, public sentiment had ripened in favor of such action. Industrial concentration increased notably during the Depression. The threat of monopolization undermined the beneficent, free-market cultural myth that had traditionally legitimated firms' autonomy and independence. Most importantly, the large oligopolistic corporations had failed to deliver what they had promised throughout the 1920s—that is, relatively stable employment, rising real wages, and improved standards of living.[36] As the large corporations proved incapable of leading the economy out of the Depression, the American public increasingly defined their self-interested responses as callous, and warmed to the idea of some form of government intervention and regulation.

The economic collapse of late 1937 started in the auto industry. GM responded by halting production and laying off workers. This strengthened the Roosevelt administra-

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