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The Good Life: How Managers Made the Modern World

From the renowned finance expert, a brief history of the world as we know it, or why he teaches at Columbia Business School.

Bruce Greenwald, the Robert Heilbrunn Professor of Finance and Asset Management, has been described by the New York Times as "a guru to Wall Street's gurus." Lauded by students as well (he has won numerous teaching awards), he is known for his provocative classroom discussions and trademark plainspokenness. Here he contends that managers have had a larger influence on humankind — a radically beneficial one — than is commonly understood. He also considers the implications that follow for teaching MBA students.

From roughly the period of the Roman Empire until the end of the 18th century, the average standard of living of human beings failed to increase significantly. Throughout that time, most people ate only staples — rice, wheat, some meat, some dairy products — in relatively limited amounts. Shelter was rudimentary. Clothing was basic and unvarying. Travel, medical care and personal care were nonexistent. Recreation, gender aside, was infrequent and uncomplicated. Only a small fraction of the population — the rich and powerful — enjoyed a varied diet, excess (and sometimes comfortable) living space, multiple changes of clothes, significant entertainment and some travel, which was dangerous and inconvenient.

Between 1800 and 1850, living standards began to rise, although only slowly at first. In the late 1800s, living standards began to rise more rapidly in Europe, North America, Australia and New Zealand — a rate of growth that accelerated in the 20th century. By 1950, even working people in those favored areas began to enjoy standards of living previously available only to aristocrats. In the last half of the 20th century, these benefits spread to large numbers of human beings in Asia and elsewhere. Today a vast number of people enjoy varied diets (rich in formerly exotic fresh foods), comfortable shelter, multiple (seasonally appropriate) sets of clothes, global travel, effective personal and medical care and recreational opportunities undreamed of in earlier times.

What accounts for this extraordinary revolution? It appears to have arisen largely from the application of sustained management attention to everyday enterprise.

The timing of the rise in living standards is suggestive. While market economies, especially for agricultural products, had been common since the 1600s, the late 19th century saw the beginning of scientific management — by Frederick Taylor, among others — and the development of large-scale enterprises, starting with the railroads.

Studies of the determinants of growth at the aggregate economic level have consistently found that capital accumulation accounts for only a small part of the increase in incomes. And while economists have typically ascribed the determinants of growth at the aggregate economic level to disembodied "technology," the force at work has not been technical innovation itself, since advances like the widespread use of steam power and electricity typically follow the scientific developments involved by many years. The application of technology in a systematic and sustained way in business is a function of management.

At the industry level, advances have also most commonly come from intervention by management institutions, whether public or private. The most notable example of this historically has been the extraordinary effectiveness of the United States Agricultural Extension Services.

Finally, microlevel studies at firms and even plants have consistently shown that most improvements in operating efficiency are attributable to the small, steady benefits of day-to-day management intervention, not to dramatic technological innovations or capital investments.

Thus, if today we live extraordinarily well by historical standards, professional managers are the predominant cause. This has, moreover, been accomplished by a remarkable extension of human freedom.

Organizational effectiveness and the problem of controlling individual behavior — whether at the level of society as a whole, local communities or particular institutions like companies — has, since classical Greece, been a central subject of intellectual and public concern. The historical answer has always been to rely ultimately on coercion in some form. The dominant view, certainly prior to the 20th century, has been that force or the threat of force is essential for keeping people in line and that material incentives — the withdrawal of necessities in the face of noncompliant behavior — are critical to economic performance. Yet force and the threat of deprivation have obvious downsides, especially when unsatisfactory individual performance is due to external circumstances or plain bad luck.

It is a blessing that most modern economic institutions offer substantial safety nets: fixed salaries and extensive protection against dismissal. Their ability to do this rests on intellectual innovations that came directly from the management community and business schools. Starting with Roethlisberger, Dickson and Mayo in the 1920s, business schools and scholars of management have produced a mass of research — translated into widespread practice — on how to motivate workers without the force of material coercion. "Professional" standards, training, attention to working conditions and context, team structures, organizational status hierarchies and a range of other tools have been steadily deployed throughout the 20th century to sustain a high level of business performance and an environment in which firing is widely viewed as a last resort.

Nowhere does the impact of these innovations show so clearly as in the inadvertent experiment that was run at the end of World War II, when many societies were artificially separated into East and West. The differences in life expectancy and standard of living that emerged across this divide have been extraordinary. In Europe — among the Baltic States, between Czechoslovakia and Austria, between East and West Germany and between Spain and Poland — the Eastern countries were as rich or richer than their Western counterparts prior to World War II. After the demise of the Communist regimes in 1991–93, there was an almost 3-to-1 difference in per capita income and about five years' in life expectancy. For Asia — between Vietnam and Cambodia, between Laos and Thailand, between China and Taiwan and between North and South Korea — similar differences arose.

The difference in performance appears to be attributable to a significant extent to differences in management technique and approach — a product of the Western management community and its business schools. These differences are not just matters of free markets versus Socialist economies. On the Eastern side, there was a wide range of degrees of centralization and the use of material incentives. On the Western side, there has been wide variation in government intervention and public control. Public institutions in the West — like Electricité de France or Deutsche Telekom — have been far more effective than their Eastern counterparts. As important, the degree of coercion maintained in the East was immeasurably greater than that in the West.

All these benefits — high standards of living, nonoppressive working environments, shopping that is a consumer sport, not a chore, and others that are now seen developing in India and China — depend ultimately upon the performance of management. Even in medicine, the greater part of the therapeutic value of treatments comes from the much-maligned drug companies, which in return collect only about one-eighth of medical expenditures.

This is to say, improvements in the standard of living throughout the world depend on the kinds of people I teach at Columbia Business School. If