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Strategies for Business Survival in a World of Government Intervention

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Strategies for Business Survival in a World of Government Intervention

by Murray L. Weidenbaum



Center for the
Study of
American Business
Washington University - St. Louis

STRATEGIES FOR BUSINESS SURVIVAL IN A WORLD OF GOVERNMENT INTERVENTION

This booklet is one in a series designed to enhance the understanding of the private enterprise system and the key forces affecting it. The series will provide a forum for considering vital current issues in public policy and for communicating these views to a wide audience in the business, government, and academic communities. Publications will include papers and speeches, conference proceedings, and other research results of the Center for the Study of American Business.

It has become fashionable in business circles in recent months to bemoan the coming decline of the capitalistic system. In fact, some outstanding, conservative scholars have been writing about the impending disappearance of the corporate form of organization. In contrast, mine is not going to be a plea to rend your garments, don sackcloth and ashes, or recite from the Book of Lamentations. Neither will it be a rosy forecast of an economic Valhalla in our time.

At least as I see it, the future is going to see more rather than less government involvement in private decision making, at least in the short run. But the trend will be an uneven one, with a few zigs and zags along the way. In fact, it would not surprise me if, a decade from now, the prospects for the private enterprise system in the United States will be more favorable than they are today. That pleasant state of affairs, however, surely will not come about effortlessly, a point to which I shall return at length a little later on.

In the short run, the prospects for changes in government policy and public attitudes toward business seem to be obvious — generally toward reducing the scope of private decision-making. I discern four major and diverse types of changes. These involve congressional enactments on regulation of business, executive branch actions dealing with inflation, government policies affecting capital markets, and modifications in the governance of corporations. In the first area, legislative developments, the Congress is likely to enact, at least within the next year or two, some form of a so-called consumer advocacy agency, a rigid strip-mining control bill, and perhaps a type of general land use planning. Some form of national health insurance law may also be in the offing, complete with greater control over the private health care system.

At the executive branch level, we are witnessing what appear to be halting and hesitant first steps toward a variation of "incomes

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policy" — a misleading euphemism for government intervention in private wage and price decisions. The firm and frequent reassurances to the contrary by senior spokesmen of the Carter Administration are not very convincing. This is especially the case when the Administration's representatives state that they are not about to establish a formal prenotification process, but that of course they expect that major companies will want to come in and talk to them about actions that might have a major impact on the economy. A rose is a rose — and smells sweeter.

Another change of fundamental importance to the future of the American business system is also occurring, but with less dramatic impact and therefore far less public awareness — the growing socialization of the nation's capital markets. Via the poorly understood phenomenon of seemingly painless extensions of governmental credit, a rising share of private saving is being funneled through federal intermediaries. Thus the federal government is in the position of directing more and more of the flow of investment, which is basic to the future direction of our capitalistic economy.

The fourth development weakening the power of business decision-making is an emerging development that may be an American form of co-determination. The European version of co-determination generally involves placing employee representatives on corporate boards of directors. An economist would describe this phenomenon as extending (from capital to labor) the existing array of producer interests which serve on those boards.

In the United States, however, we are seeing consumer and often totally noneconomic interests represented on company boards of directors. Although nominally elected by the shareholders to represent their interests, many of these outside directors seem to view their role as primarily being concerned with the problems of minority groups, social impacts of the company, and similar concerns. In the process, we may be seeing an unintentional, but nevertheless important, dilution of property rights. That dilution is not occurring via formal loss of the forms of ownership rights but by the increased difficulty in effectively exercising those rights.

For example, I can still own a piece of land, but the likelihood of my using it for the purpose I had in mind when I bought it has been substantially reduced by the environmental laws and regulations. Some offset has occurred, to be sure, to the extent that my property may be enhanced in value by the reduced pollution by my neighbors, which may also be an effect of the governmental environmental authorities.

Economic developments rarely follow a straight line for any length of time. I anticipate that, at some point in the coming decade, a

major reaction will occur — as it becomes increasingly apparent to the public that the aggregate effect of the myriad of government actions is not the improvement of business performance. Rather, the result is more often than not a marked reduction in the ability of the economic system to carry on its basic functions of providing useful employment to workers and desirable goods and services to consumers.

A few early warnings of the impending change are already visible. The nationwide outrage over the excesses of the 1974 automobile safety regulations (the "interlock" system) led the Congress to eliminate that government requirement. The current clamor on the part of California loggers over the proposed extension of the area in which cutting of redwoods is banned is another straw in the wind. The adverse consumer reaction to the proposed ban on saccharin is yet another case in point. But, as I stated earlier, the true turning of the tide will not come about easily. Many actions — and inactions or restraint — will be required on the part of business, labor, consumers, and government officials. Here are the major steps that will be needed, at least as I see them:

The First Step: Information

The first step that needs to be taken is to improve the public's understanding of the full range of impacts of government involvement in business activities. No, I do not mean an uncritical attack on all government regulation of business. Not only would such an approach be unwarranted, it would be ineffective, if not of negative value. The public may not be well-informed on business matters, but neither is the public so ignorant that it will believe any self-serving statement on the part of business (or anyone else), just provided that the message is packaged in a slick and professional enough manner. To be blunt, but hopefully useful, that approach has been tried often enough, and it has not worked.

The balanced educational message I have in mind is simple, and can be very effective in improving the environment in which public policy is formulated. It is that government regulation of business has benefits — which need to be acknowledged and identified — but it also entails great costs. The public may not be aware of these costs, but they can be substantial, often avoidable, and of such magnitude that they actually interfere with the achievement of important goals of our society. Moreover, ignoring the costs and other negative side effects of governmental action results in carrying such action far beyond the point where benefits to the society equal or exceed the costs — and that is overregulation.

The costs arising from government regulation are basic: (1) the cost to the taxpayer for supporting a galaxy of government regulators, (2) the cost to the consumer in the form of higher prices to cover the added expense of producing goods and services under government regulations, (3) the cost to the worker in the form of the job eliminated — often unintentionally — by government regulation, (4) the cost to the economy resulting from the loss of smaller enterprises which cannot afford to meet the onerous burdens of government regulations, and (5) the cost to society as a whole as a result of a reduced flow of new and better products and a less rapid rise in the standard of living.

Frankly, ridicule of overregulation — based of course on carefully researched examples — can be far more effective than dull statistics or general theories in getting the public concerned about the excesses of government activity. After all, the public has the right to know that its tax dollars are being used by government agencies that have time for such nonsense as telling us what size toilet partitions should be, how big is a hole, when a roof is a floor, and how frequently spittoons should be cleaned.

A ray of hope lies in the fact that government regulators are increasingly reaching out to and, in the process, upsetting other sectors of the society. It is not uncommon anymore to pick up an educational journal and read about the excesses of government agencies in their dealings with colleges and universities. Witness the academic backlash that is now occurring — on the part of faculty members of all political persuasions — against the more rigid aspects of the affirmative action program. A sensible effort to deal with the obvious negative effects of various individual regulations may now indeed find some unexpected allies.

The Second Step: Setting Targets

If the first step of the process of improving the public environment in which business operates is raising the factual, information level, the second step is setting sights on some reasonable, attainable objectives. Business needs to avoid adopting those obviously self-serving positions, which may be expedient in the short run, but which damage the central role of the enterprise system over the long run. Let me be candid. No amount of posturing will convince broad segments of the public that you truly believe in the private enterprise system if you run to Washington to seek tariff protection or quotas or tax and credit subsidies every time that you encounter some rough competition.

Having said that, let me add that we should not be naive in international economic matters. I am a strong believer in firm

enforcement of the anti-dumping and countervailing duty statutes.

I know that business executives are concerned that many of our citizens do not adequately understand the important role of profits as a motivating force for economic growth and efficiency — and I share their concern. But we should not forget that every student who has mastered Economics I knows that effective competition tends to hold down profits. Thus, we are justifiably suspicious when the staunch advocates of free enterprise come out for those “special” types of regulation which restrict “destructive” or “excessive” competition in their specific industries.

More than business credibility is affected. Such action provides the rationale for all sorts of raids on the Treasury by other groups. We are all familiar with the type of cartoon that was common at about the time of the Lockheed loan guarantee: The little tailor complaining, “If they can bail out Lockheed, why can’t they help me?” It is hard to avoid increasing welfare payments when the cost of living is going up at least in part due to tariff increases and the other import restrictions urged on the government by some segments of industry.

Also, business needs to recognize that not all critics are would-be destroyers of the private enterprise system. Frankly, most of them do want the system to work better although they may not share our views on how to go about it. To be sure, there is a small minority of people who want to see the American society, as we know it, undermined or replaced.

But I do believe that we would have a much healthier debate if we understood that the vast majority of the critics share the same ultimate objectives, thus providing a common ground on which to communicate. That process of communication will be enhanced by avoiding personal attacks and sticking to the issues. The main problem — which goes back to step one — is that many people do not understand the full impacts on the American business system of the various changes that they are urging. Literally, they see the benefits and ignore the costs. Rather than wanting to defeat them, we should really want to inform them, in the proper sense of that word.

Moreover, there is not a single invariant set of relationships among interest groups. On some issues, notably government regulation affecting jobs, business and labor may find themselves joining forces, as has been the case in the automobile industry. In other areas — such as government-imposed job safety standards — there may be strong differences of opinion. It is naive to talk of a community of interests of business, labor, and consumers on every specific issue. But it is equally inaccurate to proceed on the

opposite assumption, that the relationship must always be adversary. Healthy criticism can be valuable. If the initial critics of environmental pollution had been listened to early enough, some of the overreaction which resulted in putting "zero discharge" goals into the environmental statutes might have been averted.

Business spokesmen should try to avoid putting themselves needlessly into indefensible positions — such as predictably negative responses to every proposed new governmental policy, aside from those that obviously benefit your industry. I must recall sadly the almost universal silence in the business community on the bribery issue at the height of the public investigations. Now it turns out that many companies want some legislation in order to protect themselves as well as the public against unfair and illegal competition. Moreover, they realize that, in so many industries, American business is the dominant force in world markets and thus can well set the prevailing tone for acceptable business practices.

To sum up, advocate a sensible balance in government action. Hopefully, and as a result, your views may well have an impact on the formulation of that public action.

After all, we are not anarchists. Business management, employees, and consumers all share a common set of values and long-term interests — a rising living standard, higher employment, less inflation, a cleaner and healthier environment — although they may differ on the means of achieving these goals. All of these groups in general believe that government should set rules for society. There are very important functions for government to perform. It is the responsibility of government to provide for the national defense as well as for internal law enforcement. It is the function of the government to provide those common systems — airports, seaports, and highways, to cite a few obvious examples — which are necessary for private individuals and private enterprise to function. But that position does not justify government closely intervening into every facet of society. Moreover, when government actions become so detailed and poorly designed that they interfere with the basic functioning of the society, then it is indeed high time to set about the essential task of reform.

Here I suggest a simple set of goals; (1) to support those government activities that on balance benefit the society and improve the government's ability to carry them out and (2) to identify those government activities that on balance harm the society and reform or eliminate them. This approach is not a knee-jerk defense of the status quo. Neither is it an automatic prescription for smaller government — or for the reverse. Rather, it says we are going to avoid taking doctrinaire positions and look

at the specific effects that flow from individual government actions. I find that many of my conservative friends are surprised when I cite in support of this eclectic approach the outstanding free market economist Friedrich Hayek. In his great book, *The Constitution of Liberty*, Hayek offered us the following wisdom:

"... a free market system does not exclude on principle . . . all regulations governing the techniques of production . . . They will normally raise the cost of production, or what amounts to the same thing, reduce overall productivity. But if this effect is fully taken into account and it is still thought worthwhile to incur the cost to achieve a given end, there is little more to be said about it. The appropriateness of such measures must be judged by comparing the overall costs with the gain; it cannot be conclusively determined by appeal to a general principle."

In any event, it would be futile to advocate a return to the status quo ante. Public concern with environmental, safety, equity, and similar matters remains strong. It is not the ends, but the means used which in practice may be changed substantially. It is ironic to contemplate the notion that many business executives, who are constantly seeking and rewarding new ideas in traditional economic matters, are so widely viewed as the epitome of reactionary standpatters who have not had a new thought in public policy in generations. There is a communications and educational task to be performed, both within as well as by the business community.

And in terms of broadening intellectual horizons, one of the necessary tasks is to encourage the so-called and self-appointed Public Interest Groups to undergo a fundamental metamorphosis. The public, the media, and government decision makers all need to realize that the limited viewpoints of these groups prevent them from effectively representing the totality of the public interest. The problem is not their venality but their intellectual attitude that they represent *the* public interest. As an aside, one of the keys to their power is the myth of their powerlessness.

In the public arena, they possess great power. Large segments of the media, as well as many legislators, defer to the representatives of the so-called Public Interest Groups because they are viewed automatically as the underdog. This simple-minded attitude also often results in the people who disagree with them being portrayed in an unsympathetic light. Just because I may disagree

with Ralph Nader on a specific issue should not inevitably be taken as my representing some special interest opposed to the public welfare. It may just happen that on occasion he is wrong in interpreting the ultimate effect of a proposal on the consumer.

As those powerful interest groups acquire a greater economic understanding, the prospects for more enlightened public policy toward business should tend to improve substantially. And that desirable situation is likely to be hastened by our forcing those Public Interest Groups to maintain the same high standards of accuracy and fairness that they expect of others.

The Third Step: Lead From Strength

It is the rare business executive who can talk abstractly about the American business system in a convincing manner. Most of the efforts that I have heard or seen come across as far too general. In contrast, the business representative is most effective when he or she is talking about matters where they are the experts. Thus, the third step is for business to lead from strength. General discourses about overregulation of business are not useful, but presenting simply and forcefully the factual case of the 800 bottles of soda pop a day has been devastating in dealing with the proposed saccharin ban. Quite clearly, a strong, understandable, and accurate recitation of the facts of the matter has succeeded in arousing the consumer and in reaching the national consciousness.

In many ways, the saccharin case is a good example of what to do, as well as what to avoid. That example of overregulation has not been the occasion for urging the elimination of the Food and Drug Administration. In fact, most of the critics of the Delaney amendment have merely urged its reform, not its repeal. Thus, at least this example of overregulation has not led to overreaction. Similarly, the public's antagonism toward the compulsory "interlock" system on the 1974 passenger automobile led to the Congress eliminating that specific requirement. But federal auto safety regulation surely continues.

At least as I see it, the tide of government intervention in private decision-making will not be turned in one heroic battle. Rather, there are many fronts on which numerous skirmishes will occur. In order to better gird itself for that continuing series of battles, business must get its own house in order.

However, I am not counseling a strategy of placating or kowtowing to the attackers of the American business system. Some business executives seem to follow the unproductive course of attempting to humor their critics by inviting them to company and trade associations meetings at generous fees and at times actually

donating funds to their organizations. Some of these companies seem to follow a pattern that I describe as funding liberal causes liberally and conservative causes conservatively. Others try to maintain a very low public profile in the hope that the critics will pick on somebody else. But business has not succeeded in the economic sphere by taking mealy-mouth positions and I see scant prospect for success in that approach in the political and public arenas.

From another viewpoint, it might be useful to remind the public of something so obvious that we may all overlook it: when we examine the various nations of the world, it is apparent that some provide their citizens with a greater degree of personal freedom than do others. When we look at those countries that have a large and strong private sector — and those that do not — we find a very similar sorting out. Some observers may see the correspondence between those nations with substantial economic freedom and those with substantial personal freedom as merely accidental. But I find that an unsatisfactory explanation ignoring the obvious: those societies that have a large and relatively independent business sector have simultaneously avoided the concentration of power that results in a totalitarian state. Capitalism has its share of faults, and we should be frank to admit them and eager to correct them where we can. But, without getting on the proverbial Fourth-of-July soapbox, we should nevertheless try to remind our fellow citizens of the importance of maintaining a society containing diverse, independent, voluntary institutions — in both economic and noneconomic spheres of activity.

The Fourth Step: Do A Better Job Of Minding The Store

The fourth and most fundamental response to the widespread public dissatisfaction with the business system is simply — but perhaps not so easily accomplished — for American business to do a better job of "minding the store." American business firms need to concentrate on producing existing products at lower cost and to develop new and better goods and services for the public. I am not advocating a total lack of concern with social responsibility, but a return of emphasis to the basic economic function of the business system, which is to meet the needs of the consumer.

While I am on this subject, I would like to mention a topic which may be upsetting to this audience — profits. I just cannot understand the preoccupation in public statements of business executives with the public's lack of information on the size and distribution of profits. Most assuredly, the public is poorly informed on this subject and the dissemination of some factual information is useful.

Unfortunately, many business executives, unwittingly, exacerbate the problem. After all, if you feel obliged to talk about profits in every public address that you give, do not be surprised if the public concludes that is all that is on your mind. And as a consequence it is not uncommon to find people jumping to the conclusion that profits are much higher than they generally are.

But it is a snare and a delusion to equate a more accurate knowledge of the state of business profits with a higher level of economic literacy and therefore with improved public policies toward business. Yes, the polls show that the public thinks profits are higher than they actually are. However, the polls also show that the public accepts the fact that profits are necessary. But the public is never going to love you because your company is showing a good profit record. At best, profit is grudgingly accepted as the price that the society has to pay for a successful economic system. The public's acceptance of capitalism comes down not to the public's love of profits or its contentment with the unequal distribution of income and wealth that results. Rather, that public support comes about from the desire for a higher standard of living, a sense of fairness, greater opportunities for the individual, and a basic concern for economic freedom — all of which are equated with capitalism.

Personally I am struck by a different key aspect of our business system. It is trust. I still marvel at the functioning of the credit mechanism. People that I have never seen before and that I am not likely ever to see again readily extend credit to me because they trust me to repay it. I believe that it is trust, confidence in the basic honesty of most personal relationships, that is at the heart of the economic system. The worker expects that he or she will be paid for the work performed; the company expects to be paid for the goods or service provided; and the consumer expects to receive the quality of product that is purchased.

Frankly, that is why the recent flurry of corporate wrongdoing is so worrisome. Of course, the great majority of business firms were not involved in the illegal activities. But the public confidence and trust in the system were damaged nevertheless. As I stated earlier, it was disconcerting to find the leadership of the American business community so tongue-tied on that occasion. Let me make an invidious comparison. Should an economist make an outrageous or inaccurate statement, at least six other economists will publicly criticize the errant fellow, and without any danger of being denounced in turn for attacking the economics profession. But, in my own experience, I find that to criticize in public any action of any business executive is to set yourself up for being

condemned as an enemy of free enterprise. To put it bluntly, we need to raise the intellectual environment within the business community.

The Fifth Step: Relate Concerns To The Broader Interests Of The Public

As the noted author, Richard J. Whalen, stated in a talk at our Center for the Study of American Business, we all must come to realize that the concern for the private enterprise system is in reality part of a larger national debate over fundamental values and especially the new balance that our society is seeking between the power of government and the freedom of the individual. The fifth and final step that needs to be taken to improve the public environment in which business operates is to relate business and economic concerns to the broader interests of the public. The argument that the free enterprise system is the basic source of economic efficiency, productivity, and enhanced material wealth is sound enough. However, it is too narrow to command sufficient popular assent and political support. The purely economic aspects, we must admit, omit the broader concern for human values above and beyond mere efficiency.

That broader appeal might contain the following themes: (1) an economy organized primarily along the lines of private enterprise is the proven means of achieving the ideal of excellence, (2) it is that ideal of excellence which alone sustains domestic prosperity and enables this nation to survive as a free and progressive society, and (3) that type of society is becoming relatively scarce in a world increasingly characterized by totalitarian governments tending to deliver to their citizens neither personal freedom nor high living standards.

Thus, the concern with the future of our economic system really reflects our more basic desire to maintain and strengthen the free and voluntary society of which the economy is a vital but only a constituent part. Boiled down to its essence, economic freedom is inseparable from political freedom. We foster one as we pursue the other. I hope that in these remarks I have provided some basis for substituting for the pessimism that too often prevails in business and intellectual circles these days a more balanced, positive, and even optimistic approach toward the future.