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THE FUTURE OF BUSINESS
Shock or Stability?

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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.

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THE FUTURE OF BUSINESS: Shock or Stability?

by Murray L. Weidenbaum

There are no great solutions and as we proceed we should do so cautiously . . . but I do say we should proceed.
Roderick M. Hills
Former SEC Chairman

CLARENCE Walton, a distinguished student of business-government relations, concludes an essay on corporate ethics with the statement, "'Life is not so simple' marks the beginning of ethical wisdom." [1] The admission that life is not so simple may also mark the beginning of wisdom in dealing with the development of public policy toward the business system. Leonard Silk, the economics columnist of *The New York Times,* writing in the same vein, reminds us that moral issues involve conflicts, not between "good" and "bad," but between "goods." [2] Perhaps that explains why an economist feels obliged to jump into the murky waters of public policy toward business—precisely because making such policy involves difficult choices among worthy alternatives.

The history of government intervention into private economic activity surely is replete with examples of regulations which were born of good intentions but which wound up being far more

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deadly than the disease they were supposed to cure. Many government undertakings, such as those intended to improve the safety of products, may produce side effects that are far more worrisome such as lessened product variety, higher prices paid by the consumer, and on occasion newer and more dangerous product hazards. But it is not a question of being for or against safer products or a healthier environment; neither, of course, is it a matter of being for or against inflation or unemployment. As in most matters in life, it is a question not of either-or but of more or less and how to choose among those "goods."

Both American business and the American public have been faced with more and more burdens imposed by government. The direct costs to business firms in complying with regulations certainly have been enormous, but by and large they get passed on to the consumer in the form of higher prices (which is no little cost, as we have seen). But the indirect costs that result when companies have to change their basic ways of operating—to survive in the ever-larger regulatory network—are of much greater long-term significance; those costs are bound to grow, at least on the basis of current government policy. Finally, the induced costs resulting from government regulation—reductions of industry's pace of innovation, of its ability to grow and provide jobs for an expanding population, and of its basic capacity to produce goods and services for the public—far exceed any monetary quantity when they are compared with their effect on our overall *quality* of life. And literally to add insult to injury, those regulatory efforts—as we have seen—far too frequently just do not work. It is hardly a question of placing a dollar value on human life when the dollars spent for regulation often fail to attain the stated objective of saving lives or helping people.

Within the business system itself, government at all levels has had pervasive impacts on every type of private enterprise from the largest to the smallest. We might say that in the past decade exotic colors have been added to what was already a bizarre rainbow of government interventions in the private sector. American business faces a future that could be pessimistic if the growth of government power over business continues at the current rate. But it is surely within our means to opt for a bright future, one characterized by restraint in the use of government regulation.

The optimistic scenario is possible if at least three key tasks are performed. First of all, American business will have to take a number of important but difficult steps in improving its day-to-day relations with the public sector. That includes dismantling what we have referred to as the imperial presidency in the private sector. Second, government will have to exercise more self-restraint in, and more self-criticism of, its multitude of regulatory actions. Government officials will have to adopt more sympathetic views of their public responsibilities in their relations with business. Finally, public interest groups, academic researchers, and the media will have to work in their powerful ways to improve public understanding of the many implications of government policies toward the private sector of the economy.

The one-dimensional perspective on complex matters, which often describes the outlook of the so-called public interest organizations, is a failing that needs to be fully recognized and, hopefully, remedied. For example, those groups quite properly berate business and other traditional institutions for their preoccupation with economic goals to the exclusion of such other important needs of society as a healthy environment. But they themselves exhibit a similar, if not greater, preoccupation with a single social need, such as pure air or water, and forsake all other considerations. Interestingly enough, the public at large is surprisingly well aware of the complexity of reality and of the need for balance among important and competing objectives.

Evidence for that awareness is not hard to find. In-depth polling of the American public by the Gallup organization and Potomac Associates provides interesting signals to all those who would attempt to influence and alter public policy. The polls show that the American people have the greatest "sense of progress" in overcoming some of the social problems (notably environmental pollution and discrimination) which have motivated much of the recent wave of governmental regulation. But in striking contrast, the public signals far less of a sense of progress in the economic problem areas (inflation and unemployment) which are exacerbated by the activities of the new regulatory agencies.

In 1976, for example, 68 percent of the public polled reported a sense of progress in handling the problems of black Americans and 63 percent in reducing water pollution. However, only 35 percent reported a sense of progress in controlling rising prices and only 44 percent in dealing with the problem of unemployment.[3]

William Watts and Lloyd Free of Potomac Associates, the two researchers who analyzed the Gallup data, point out two "unfortunate effects" that flow from the belief that 100 percent perfection in the environmental field should be sought in "an otherwise imperfect world." The first is that the "superenvironmentalists" (Watts's and Free's term) condemn themselves to frustration and bitterness. The second adverse effect is that they turn on those who recognize the need to strike the best possible compromise between competing political, social, and economic demands and then "vilify them as traitors to the cause." [4]

Surely a case can be made for some moderate shift of government attention from social to economic concerns. Here too the public at large shows far more depth of understanding than the often-shrill public figures who claim to represent it. The contrast is evident in the resounding conclusion offered by Watts and Free on the basis of their detailed analysis of American public opinion: "The insistent call from Americans is to make the system work more effectively, and to strengthen the bonds between the leadership in our major institutions and the populace at large." It is naive to assume that the public interest groups—as well as business and government—will voluntarily make changes in attitude. Only a fundamental shift in public opinion and an aroused citizenry will force them to do so.

There is growing concern over whether the modern corporation will survive in the United States.[5] In a sense, two different answers can be provided to that question, one negative and one positive. From the negative aspect, the corporation as we know it today may not be the dominant private institution in the twenty-first century. But from the positive aspect, we might state with equal confidence that the corporation, with some substantial modifications, indeed is likely to continue to be the dominant institution in the private economy of the United States for another century.

Such optimism is not without firm foundation, for the modern corporation never has been a static or inflexible entity, and there is no reason to expect that it will become one. The typical American corporation is becoming more responsive to the needs of the society of which it is a part. For example, voluntary programs to bring minority groups into the mainstream of corporate life are both substantial and commonplace. Most business enterprises, however, are making sensible modifications intended to slough off the excesses that were often adopted during the late 1960s and early 1970s, when social responsibility became the "in thing." The current response is not due to any charitable impulse; it arises from a more sensible and durable motive: the instinct to survive and prosper by meeting more completely the needs and desires of the society of which business is a part.

Neil Jacoby of UCLA, a keen observer of the American corporation, has provided some useful conceptualization of the shift toward greater responsiveness. He sees the modern American corporation as adopting a "social environment" model in which the enterprise reacts to the total social environment and not merely to markets.[6] Quite clearly, both market and nonmarket forces can affect a firm's costs, sales, profits, and assets. Corporate behavior increasingly responds to political forces, public opinion, and government pressures, regardless of whether those factors are welcomed or helpful. No company can afford to ignore public attitudes and expectations—simply because to do so would result directly in loss of sales and customer goodwill or indirectly in increased costs to the extent that those pressures lead to further government intervention in business. The knowledge of that voluntary business response, firmly motivated by enlightened self-interest, should be a factor that interest groups and government decision makers increasingly take into account before proposing or implementing additional government involvement in the activities of the private sector of the economy.

Indeed, many companies have been instituting formal feedback processes designed to both inform management of changes in the external environment and encourage necessary changes in company policies and practices. Most firms have also embarked on the useful course of improving their channels of communication with employees, consumers, shareholders, students, religious and educational institutions, and other groups, many of which were considered in earlier times to be beyond the scope of business concern.

In viewing both recent and prospective developments in business-government relations, SEC Chairman Harold Williams has urged that the current emphasis in public policy should be on fostering private accountability, the process by which corporate managers are held responsible for the results of their stewardship. He sees that procedure as a preferred alternative to intervening directly in corporate governance to legislate a sort of federal "corporate morality." According to Williams, if corporations are to preserve the power to control their own destiny, they must be able to assure the public that they are capable of self-discipline.[7]

Direct forms of government intervention in business decision making can often be self-defeating. Although business executives retain their nominal responsibility for "minding the store," their ability actually to do so is undermined by a host of government inspectors, regulators, and planners who increasingly are assuming aspects of traditional business responsibilities. In any event, the direct involvements by government in business usually have cumulative and serious adverse effects which were not intended by the proponents of the government action. Although Jeane Jordan Kirkpatrick (a political scientist at the American Enterprise Institute) was criticizing proposals to reform political party government, her views are strikingly relevant to the issues that we are dealing with here. She remarked: "It is a basic article of faith in the American creed that for every ill there is a remedy; by now experience . . . should have taught that, at least where political institutions are concerned, for every remedy there is probably an ill."[8] By exercising more self-restraint over the natural desire to improve private performance, government decision makers should give business a greater opportunity to do a better job of "minding the store."

If anything is clear from the growing government control of business decision making, it is the weakness—not the often-heralded strength—of business in the political process. After all, business generally has not urged the institution or the expansion of the new wave of regulatory agencies or programs. EPA, EEOC, ERISA, Tosca, CPSC, OSHA, and the rest of the regulatory "alphabet soup" generally were voted by Congress *despite* the strong opposition of the corporate community. That is not to say that business has no influence in the public arena; it is usually far more effective when it focuses its efforts on the specific programs that are advocated to benefit an individual industry (such as maritime subsidies and steel import quotas). But business is much less successful when it attempts to do battle on the broader issues which have led to the new wave of government intervention.

After reviewing business efforts on public policy issues, Neil Jacoby concluded in a 1977 study that business fought a defensive action against other interest groups, and that it usually failed. He adds, "There is also abundant evidence that, during the 1960s and early 1970s, corporate businesses were generally

unable to bend federal administrative agencies to their will—contrary to the popular notion that they have 'captured' those agencies." Jacoby also contends that corporate political power reached its zenith during the nineteenth century and has ebbed gradually over the years—a contention which gives the lie to the assertions of public interest activists. "Today," Jacoby says, "it [business] is relatively less influential than ever. Far from being excessive, it may be too weak to maintain a vibrant market economy over the long run."[9]

GOVERNMENT AUTHORITY AND PRIVATE POWER

In the broad sweep of American history, the transcendent debate on ideology has been between the Jeffersonian and Hamiltonian approaches to democracy, which in effect relate to centralizing or decentralizing the power of government in society. To update that debate, the pertinent question now is how to allocate power between the individuals and voluntary institutions in the private sector on the one hand and the sovereign authority of government at all levels in the public sector on the other. In that regard, the author remains a patient optimist, believing that the now excessive power of the state will diminish as the balance of power shifts back gradually from the public sector to the private sphere. Perhaps the situation will worsen for a bit longer, however, before the public—thoroughly disenchanted with high taxes and big government—forces an improvement.

Because so many of the government actions affect business and thus are hidden from public view, we tend to forget how quickly and how far down the path of government control we have gone. In January 1965, Adolf Berle (co-author of the seminal work *The Modern Corporation and Private Property*) described the extent to which government had at that time limited the ability of business to use its "productive property." But, he added, "the state has not attempted (aside from police limitations) to tell a man what or how he should consume—that would constitute an intolerable invasion of his private life."[10] Obviously, however, Berle wrote prior to the compulsory installation of seat belts in the private automobile and before FTC proclamations on how much sugar we should have in our diet.

We are beginning to see the disenchantment with big government take the practical form of limits on state spending and taxing voted by aroused taxpayers. During the coming decade, it may also become increasingly apparent to the public that the aggregate effect of government regulatory actions is not the improvement of corporate performance. Instead, the result more often than not is, as we have seen, a marked reduction in the ability of the economic system to carry on its basic function: providing goods and services to the consumer.

What is likely to follow from that realization is not a dramatic series of moves to dismantle the bureaucratic apparatus which has been expanding so rapidly during the past two decades at all levels of government. There will not, in short, be a return to a simple status quo ante, since public concern with environmental quality, safety, equity, and similar social objectives will certainly remain. However, the *means* used to achieve the objectives may be changing drastically.

Many of the older regulatory programs, such as the ICC and their state counterparts, may be dismantled or at least cut back sharply in favor of reliance on competitive market forces. The focus of some of the newer regulatory agencies may be shifted from the promulgation of detailed standards to the use of incentives for private action, such as pollution taxes and a greater reliance on information provided to the consumer. The nearly universal adoption of and adherence to voluntary codes of business ethics should obviate the need for much of the compulsory controls over corporate governance that currently are being advocated with increasing vehemence.

Surely the state has not begun to wither away. That much is exceedingly clear. Nevertheless, the portion of the nation's resources being preempted by government, which has been rising in recent years, may begin to decline. That will permit a larger flow of private saving to corporate investment, thus obviating the need for many of the historic tax, expenditure, and credit subsidies to specific industries and geographical regions. Federal, state, and local governments may wind up doing less *to* and *for* business than is now the standard experience.

In the process, the various public interest groups will have to undergo an important metamorphosis. In turn, the public, the media, and government decision makers will have to realize that limited viewpoints prevent those public interest groups from effectively representing the overall public interest. A useful feedback may thus occur, with those groups acquiring a greater economic understanding. The change subsequently will generate an

important force in gaining widespread acceptance of more positive departures in business-government relations.

In part, the more positive approach to public policy toward American business may be encouraged by a growing understanding of the international dimensions of business. American companies compete with increasingly powerful foreign enterprises in both domestic and foreign markets. Many of those foreign enterprises, rather than being restricted by their governments, are often subsidized by, if not actually a part of, the government apparatus. Not too surprisingly, U.S. shares of world trade have been declining steadily in recent years. The reasons are numerous, of course; they range from trade barriers overseas to higher costs of production at home. But employment and income in the United States surely suffer when the role of American business firms in the markets of the world is weakened, and public realization of the consequences should motivate positive responses in public policy.

To adopt that sanguine viewpoint at a time when the encroachment of government on business prerogatives is escalating may be reminiscent of Pollyanna's optimism or of Voltaire's Dr. Pangloss, who perennially saw his current environment as "the best of all possible worlds." That passive attitude surely is not the one advocated here. It will take a great deal of positive action, as well as difficult self-restraint, on the part of the many public and private groups and individuals involved to achieve the basic improvement in public policy envisioned here. Indeed, much of this essay has been devoted to outlining those responsibilities for business, government, consumer and other interest groups, academic researchers, and those vital middlemen and women—the professionals in the communications media.

For those who despair of the likelihood of achieving such improvement, it may be fitting to end with a point made by William Carey, executive director of the American Association for the Advancement of Science and one of the most incisive minds in the nation's capital. Carey draws a parallel between today's prophets of gloom and the *Nuremberg Chronicle* of July 14, 1493. That forecast of the imminent end of the world was made just when Columbus was approaching Lisbon with news of the discovery of the New World. As Carey puts it, "The heirs of the Nuremberg Chroniclers are still scribbling, still predicting the Seventh and last age of man, still discounting the possibilities of thought, discovery, and enterprise for giving tired and troubled institutions another chance."[11]

The American business firm, besieged by government regulators and private pressure groups, may indeed be tired and troubled. But when its contributions to material welfare and personal freedom are fully assessed, it surely deserves—and is likely to obtain—another chance from critics and supporters alike. The overriding theme of this essay is that a reversal of the current trend of ever-increasing government intervention in business is essential not so much from the viewpoint of business, but primarily from the viewpoint of enhancing the welfare of the individual citizen.

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