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Murray L. Weidenbaum

Washington University in St. Louis

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Weidenbaum Center on the Economy, Government, and Public Policy – Washington University in St. Louis
Campus Box 1027, St. Louis, MO 63130.

BUSINESS POLICY AND THE PUBLIC WELFARE

BY MURRAY L. WEIDENBAUM

January 14, 1977

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By Murray L. Weidenbaum

An Address to the Executive Management Conference
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New York City, January 14, 1977

"The only way that any President can gain the confidence of that /business/ community is by turning the country over to it lock, stock, and cash register."

-- The New Yorker

If you are certain as to the hostile environment in which business operates, the passage that I have just quoted should dispel any lingering doubts. And let me emphasize that the quotation is not taken out of context or from an obscure or radical publication. It is the theme of a recent lead editorial in one of the nation's most prestigious mass circulation magazines, The New Yorker. I hasten to add that I have not canceled my subscription in protest nor do I suggest that anyone else take such a negative approach.

Rather, I believe this all too common theme indicates the pervasive lack of understanding, on the part of large portions of the public, of the operations of the American business system. Unfortunately, that ignorance is not dispelled -- indeed it is reenforced -- by the vehement defense of the private enterprise system that many business executives offer any time they see or read any criticism, whether justified or not. Nor is the public confidence gained by the noticeable silence on the part of much of the business community in the face of flagrant violations of law or

Note: Mr. Weidenbaum is Director of the Center for the Study of American Business at Washington University in St. Louis. This paper draws on his new book, Business, Government, and the Public (Prentice-Hall).

ethics by individual executives or companies.

It is hardly my purpose today to suggest an orgy of self-flagellation on the part of American business. Yet, I hasten to add that -- in striking contrast -- should any economist make a public utterance containing some falsehood, at least six of his or her colleagues will immediately get up and publicly criticize that economist. And there is an especially cogent reason for the business community not to condone or ignore, but to condemn, those instances of illegal or immoral behavior. Let us note the obvious, when government passes some restrictive legislation to deal with a specific abuse, the resultant regulation seems -- like the rain in the poem -- to affect the just and the unjust alike.

But let us now turn to the positive thrust of these remarks. What sensible actions can business take in order to improve the public environment in which it operates? Frankly, I am not going to suggest the traditional response. As an educator, I urge you not to sponsor yet another essay contest in the high schools or colleges awarding a \$25 savings bond to the writer of the best essay on "What the Free Enterprise System Means To Me." That really does not serve a useful educational purpose. It also reenforces the belief of many educators that the typical businessman is self-serving as well as unimaginative.

Also, advertising campaigns on the contributions of business to America have a very limited impact. Ideas are not successfully marketed the same way as corn flakes or cars or houses. The very first thing that American business needs to do is simple, clear -- and difficult: to do a better job of minding the store.

I believe that the most basic way for the business community to truly satisfy the American people on a long-term, sustainable basis is by our economic system producing higher employment, a lower rate of inflation, and a rising standard of living for the average family. With one key proviso, to do all that in an environment of maximum freedom for the individual.

Each American business firm needs to use both its capital and the skills of labor more effectively to produce its products at a lower cost and to develop better goods and services for the public. Thus we all need to emphasize the basic economic function of the business system, which is to meet the needs of the consumer. As we have learned, there is no more effective advertising or public relations than a satisfied customer.

As pointed out by Elisha Gray II, former chairman of the Whirlpool Corporation and now chairman of the Council of Better Business Bureaus, "We have got to establish the public's confidence in the market place before we can establish our credibility." This is clearly the case where performance is far more important than rhetoric.

The second category of business response relates to government and public policy. There are many actions that can be taken -- or that should be avoided -- in dealing with government and public interest groups. In my study and personal experience, I find that companies follow three basic patterns in responding to increasing government and public involvement in business decisionmaking. The first is passive. Some corporate managements simply react to each new or expanded government intervention into private business decisionmaking. You gripe. You attempt to postpone when you can. But you finally go along.

The second is an anticipatory approach. Some companies try to estimate in advance the new types of public concerns and government intervention and prepare for them. Still other business executives follow a third, more active approach. They attempt to head off or shape the nature of government intervention. This active approach means playing a more substantial role in the public arena.

In practice, there is need for each of the three approaches. While a law or regulation is in force, you must obey it. And some problems can be anticipated. If you see that the environment is getting dirtier or the supply of energy is becoming tighter, there are sensible things that companies can do about these problems voluntarily. But today I want to focus on that third approach, on trying to slow down, reforming, and even reversing the rising trend of government regulation. As you may have noted, I am not saying eliminate all government regulation. This is simply unrealistic and, frankly, I believe also undesirable. Many of these government activities have served a useful purpose in terms of reducing environmental pollution, enhancing product and job safety, and overcoming the effects of historical patterns of discrimination. Moreover, the public support of the purposes of these programs remains very strong.

The first step to changing the status quo -- to reducing the adverse effects of regulation -- is to understand what the regulatory process and activities are all about -- and then to communicate that understanding to the public and ultimately to government decision-makers. Let me be candid. It is hard to effectively criticize government agencies which are trying to do something as worthy as assuring safer products or a cleaner environment. After all, who is against clean air and safe buildings?

But the reality is so very different. We are talking about bureaucracies, with all of the faults and shortcomings of the bureaucratic mentality. In my work, I find that the public responds sympathetically to the specific problems encountered by the business executive who must deal with the bureaucracy, especially when those problems are explained fairly and accurately.

I have learned that ridicule of overregulation -- based of course on carefully researched and accurate examples -- can be far more effective than dull statistics 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 dealing with the following questions: What size should toilet partitions be? Are special women's lounges discriminatory? How big is a hole? When is a roof a floor? How frequently are spittoons to be cleaned?

But it is vitally important that those attention-grabbers be followed up with that fundamental truth, that it is the public that pays for the overregulation of business. And the public pays in many ways: higher taxes to support a veritable army of regulators; higher prices to pay for the more expensive production and transportation methods that are required by government agencies oblivious to the costs that they impose; more unemployment as companies are forced to curtail operations or to close down because of the higher costs; and finally delay in the introduction of new and better products, as government reviews, postpones, and reviews again.

There are many ways in which business can help to improve the general understanding of the costs as well as the benefits of the growing govern-

mental intervention in the economic activities of the private sector. And we all need to realize that there are three interrelated "publics" whose education needs to be strengthened in this regard: (1) the average citizen-voter-taxpayer, (2) government officials in all three branches, legislative, judicial, and executive, and (3) perhaps the most crucial, the media which represents the intellectual middleman providing the information to business as well as to those who seek to control its performance. We need to understand the great variation in media coverage of business and economic affairs. Some journalists have become veritable experts in reporting and analyzing current developments in these fields. Their work is properly relied upon as basic source information by scholars and operating executives alike.

But a far larger number of writers on business and related topics lack the basic comprehension of the activities that they are reporting on. No sports desk would ever assign a reporter to cover a baseball game who was not familiar with the rules of the game. It is unfortunate that a comparable level of competence is not a general requirement for covering an annual meeting of a major corporation or reporting on a critique of business by an important interest group.

Business firms are making more extensive use of their own media, such as in-house publications and communications to shareholders and customers to raise the public awareness of political issues that affect the future of the business community. Much more can be done along these lines. Yet it is the public media which is the crucial channel of communications.

Senior management is increasingly being placed in situations where speaking abilities are crucial to public reaction to their companies. Carl Gerstacker, recently retired chairman of Dow Chemical Company, has described this new function of top management: "It is safe to assume

that at some point in his career, the senior corporate executive might well have to cope with an audiovisual situation involving George Meany, Evelyn Davis, Ralph Nader, Clergy and Laymen Concerned, Philip Hart or the Symbionese Liberation Army."

As government becomes more involved in day-to-day business activities, numerous companies are consciously altering their basic organizational structures. Many are expanding the resources that they devote to government affairs, often setting up or expanding their formal government relations departments. Firms of substantial size generally maintain Washington offices, while smaller companies rely primarily on their trade associations as well as Washington-based attorneys and consultants.

Activities of Washington offices vary substantially, according to the industry and markets served, the size of the firm, and tradition. One major company compares its Washington office to an embassy. Its office in the national capital follows and interprets actions of the government that have significant impact on it and helps to formulate positions on those actions. That office also serves as the principal channel for communicating the company's views to the government, drawing on headquarters officers and staff as necessary. Often the most effective form of influence is simply making available to government decisionmakers prompt, accurate, and pertinent analyses of the impacts of proposed legislation -- in contrast to the traditional methods of simply and often belatedly registering opposition.

Business firms have been utilizing trade associations ever since the Rhode Island candlemakers banded together in 1762. In more recent years, business has been using industry groups to assist them in dealing with

the federal, and often state and local, government. Trade association activities in public affairs during the past decade have concentrated especially in five areas: health and safety, consumer affairs, the environment, wage and price controls, and energy. As a result, these organizations are often moving their headquarters to the Washington, D. C. area.

Modern trade associations can be characterized as "organizations in the middle." They increasingly interpret government actions and public attitudes toward business, and vice versa. The role of many trade associations has extended far beyond the conventional area of lobbying for or against new legislation. Rather, with increasing frequency they deal with the rules and regulations that government agencies issue.

As federal agencies establish newer forms of controls over business, member companies more commonly look to their associations to explain the new rules to them, as well as to take public stands that they may not want to take individually. The most successful and useful trade associations are those who provide a respected two-way street between business and government. They both explain government policies to their membership and improve the government's understanding of the practical impacts of existing and proposed policy. The result can be highly desirable -- both improved public policy in the formulation stage and more effective administration of that policy when it is carried out.

Some enlightened business association executives have urged their members to take the lead in promoting strict but reasonable lobbying laws, and to clean up any abuses that may now exist. In the words of one senior association official, "That's not the plaintive cry of a frazzle-haired

liberal. That's the calm statement of a concerned association executive. Drag your members kicking and screaming into the 20th century."

The rising extent to which government regulatory activities impact on business decisionmaking is resulting in renewed interest on the part of business executives in direct participation in the political process. "Watergate" and all its ramifications dampened the enthusiasm of some for political activities. But some basic reasons for business participation in politics remain very strong. For one thing, the substantial political role of other interest groups, such as labor and agriculture, continues at high levels. The anti-business orientation of so many of the political activists working under the banner of "public interest groups" results in a climate conducive to more anti-business legislation.

The stakes for the business community are very high. That is obvious in the case of those American companies who have been forced to close down facilities or to forego the introduction of new products due to governmental regulatory activities. Less dramatic but far more frequent are the instances where businesses have been faced with large government-mandated price increases or productivity losses.

Corporations can participate legally in a wide variety of political activities. But typically they are much more reluctant than labor unions to do so. A corporation may recommend to its management employees and shareholders how they should vote. However, in practice, very few companies attempt to exercise that right to develop and communicate their views on specific candidates. Labor unions, in striking contrast, show no similar shyness. In 1976, most corporate efforts were limited to non-partisan register-and-get-out-the-vote drives.

The management of a company has a right to state its position on public issues affecting the company's well-being, including legislative proposals before the Congress. It also may communicate to its employees and stockholders information on members of Congress and candidates for office, such as voting records. Company-sponsored programs explaining how to be effective in politics are another permissible form of political activity. A corporation can provide political education programs for employees, and it can actively promote, on a nonpartisan basis, its employees' voluntary involvement in direct political action on their own time. An employee may also be granted a leave of absence without pay to work on a political campaign.

Corporate officials do often pool their contributions, so that one company official presents all of the donations from company employees who support a given candidate. This approach is likely to increase the firm's political impact on the recipient. Such efforts may be industry-wide and patterned after similar efforts by labor unions. The National Association of Manufacturers sponsors a Business-Industry Political Action Committee. Bankers have established a Banking Profession Political Action Committee (BANKPAC), and the American Bakers Association have a Bread Political Action Committee (BREADPAC). Doctors, with help from drug firms, have set up an American Medical Political Action Committee (AMPAC). Other industry groups that raise funds for political candidates include the Construction Equipment Political Action Committee (CEPAC), the Life Underwriters Education Fund and Political Action Committee, and the Milk Industry Foundation.

The substantial political contribution by other interest groups should not be ignored. In the Fall of 1974, labor unions were reported

to have contributed \$333,300 to 141 members of the Congress who supported a bill to require that eventually 30 percent of all oil imports be shipped in American vessels, staffed by union crews. The largest donation, \$20,000, went to the Senator who served as floor manager of the bill.

In the 1976 national election campaign, the AFL-CIO's Committee on Political Education (COPE) reported that it spent "in the multi-millions" on top of the \$2 million it devoted to its computerized election machinery. Most of labor's election efforts do not show up in official reports, and hence are not subject to the legal limitations. I have in mind such examples as the virtual full-time assignment of union organizers and clerks to get-out-the-vote duty. In 1976, more than 10 million calls were placed from COPE's telephone banks and 120,000 "volunteers" were involved in its car pools and doorbell ringing. As non-profit organizations, labor unions pay low, subsidized rates on their mailings, even including campaign material.

Here is how Al Barkan, the Director of COPE, evaluates his operation, "We have phone banks functioning in almost all communities of any consequence during registration and get-out-the vote campaigns. On election day, we provide transportation to the polls for members needing it, babysitters, pollwatchers -- probably more and better trained than in either political party."

Mr. Barkan points out, quite clearly that, "As important as funding is in politics, however, COPE's strength is people, always most of all people -- the thousands of volunteers who make the COPE program go and who provide the nuts-and-bolts support services that are so crucial to winning elections..."

It surely seems that a double standard is operating with reference to these off-the-balance sheet items of money and time. What company or trade association would dare assign its executives to full-time campaigning as part of their paid work? What companies would devote their reports to shareholders and executives to the campaigning in which unions openly engage? To be fair let us clearly acknowledge that there is nothing illegal involved in these union activities. Given the current public sentiment toward business, companies are afraid to engage in the same type of lawful activity for fear of an outburst of enraged media and citizen reaction. Labor's political contributions simply do not receive the public attention that comparable business efforts do. I am not defending the situation, but just describing it.

It is a stacked deck; and not just at the federal level. At present, 21 states allow corporate gifts to state and local election campaigns, but 45 states allow labor unions to make contributions. Personally, I would equally restrict both unions and companies in their conduct of the activities that I have been describing; the status quo is just unfair. To be sure, I respect the right of business firms, unions, and all other organizations, as well as individuals, to lobby for changes in government law and regulation. Those are activities which are protected by the Constitutional guarantee to petition for the redress of grievances.

Yet, I have grave misgivings as to the desirability of either labor unions or business organizations using their resources to participate in election campaigns. But I very strongly believe that fairness requires that any restrictions apply equally to both.

Conclusion

Sensible and moderate business efforts to improve the external political and social environment may find allies in other sectors of the economy. Certainly, there are academic institutions whose research and publications help to improve public understanding of the problems facing the private enterprise system. That indeed is a major purpose of our Center for the Study of American Business at Washington University in St. Louis. Over the past two years, we have been attempting to improve the nation's knowledge of the contributions of the American business system. We have been trying to show that it is the consumer who ultimately pays for the excessive amount of government regulation of private sector activities. And the consumer pays in many ways -- higher prices, lower employment, fewer new products, and a stagnating standard of living.

But, as I said at the outset, it is not a question of advocating the elimination of all government intervention in the economy. Many programs do generate important benefits to the public, and they should be retained and improved. But our genuine concern with a cleaner environment, safer products, and other important social concerns should not make the agencies carrying out these programs immune from justifiable scrutiny. Given the relative newness of so many of these programs, it is apparent that they are experimental and could well benefit from healthy and constructive criticism as well as suggestions for reform.

In a fundamental sense, it is a way of thinking that needs to be developed in public policymaking. I am urging balance and moderation in viewing the future of business-government relations. Public policy needs to be geared to enabling business to help achieve the nation's social

goals. But -- for the public good -- business must simultaneously be permitted to fulfill its basic economic function of more efficient production of better goods and services. To restore common sense to government is a challenge to the economic education of the public -- and a specific challenge to educators and business executives alike.