Presidential Address: Some Random Thoughts on Business and Government

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At such times as these I am reminded of some slightly paraphrased remarks uttered by Lord Rosebery upon stepping down as the Queen's prime minister. "There are two supreme pleasures in [public] life," said Rosebery, "the one ideal, the other real. The ideal is when a man receives the seals of office from his sovereign. The real pleasure is when he hands them back."

This annual occasion also reminds me of those Christmas pageants in which some of you no doubt also participated. Fortunately or unfortunately for our future triumphs or traumas, we were swindled or browbeaten into "saying a piece" at these annual festivities. The practice caused some of us to be turned into rank exhibitionists and others to lapse into silent humility. In which category I belong, I should not be permitted to judge.

But one should not sneer at all this piece speaking. It is a tradition, and there is unhappily little enough tradition in the modern world.

Presidential addresses that I have heard and observed come in four guises: What the discipline has done to me; What I have done to the discipline; The state of the discipline; And what you can do for the discipline. In other words, recollections, research, appraisal, and tasks. And all of them, like most everything else are inextricably interwoven.

I have not enough time to recount my recollections, and you should not have enough patience to listen to the tedious business of research, past, present, and future. That leaves appraisal and tasks.

Unlike Walter Heller at the recent American Economic Association meeting, I feel no surging swells of optimism about the state of business history. That may well be the difference between a reform liberal and a reformed liberal.

Economic history, the former breeding ground of business historians, has abandoned the English language in a lamentable but quasi-successful effort to become an exact science. I find its labors no-end interesting, but I fear that the average human being finds them somewhat less fascinating than Burton's *Anatomy of Melancholy*. History itself is in a depressed state, as a

cursory look at college catalogs and a searching examination of the contents of yesterday's and today's learned journals will attest. As for business, it has been sinking along with history into a state of innocuous desuetude.

It must be apparent by this time that I choose to talk about some tasks of economic history. And I so choose out of malice and cunning, for to point to what should be done when so much has already been done is the last refuge of intellectual indolence.

In the past 40 years, the literature on business history has dwarfed Dr. Eliot's five-foot shelf. Next to hair, it has been the fastest growing phenomenon in our part of the academic area. Indeed, to my amazement, I learn that the output in business history exceeds that of cliometrics. And this does not include the stream of so-called popular literature -- the species that is designed to enable the masochistic to be privy to the evils that lurk in businessmen's souls.

Despite the plethora of literature there are, as you know better than I, large gaps not simple lacunae in the study of business history. We *feel* that we have the answers to many unanswered questions, and despite the disclaimers that we may sometimes express, we do accept as the ultimate truth many of the assumptions of orthodox economic theory. But in contrast to what we feel, we *know* precious little about such annoying matters as the whats and whys of success in business, the precise nature of the cleavages that exist in the highly fragmented institution known as business, the many-faceted objectives that guide business behavior, and so forth. We cannot come to grips with many fundamental questions in the field of business without having first produced some convincing explanations to the questions I have just raised.

One of the fields that can shed some light on many of the still unanswered, tantalizing questions of business history is the interrelationship of business and government -- the role that business has played in influencing government and the effect of government behavior on the continued existence, profits, status, and so forth of business. There is of course much literature on the subject of business and government, but business history has produced much less than a handful of opera on the subject.

This audience needs no reminder that laissez-faire never existed in the United States despite the widely held illusion to the contrary. American governments on one level or another have always intervened in the economy, just as governments have intervened in other times and in other places. But the goals and objectives of government intervention have undergone a radical evolution. And in the same process of evolution a radical change has also occurred in the identity of the recipients of governmental favors and those who pay for such favors. Those who call the tune in political economy today are an entirely different group from those who edited the political economy of yesterday.

Let me start with the proposition that the metamorphosis in government-business relationships passed through four phases. In the Colonial Period, an aristocratically guided mercantilism had for its principal objective the common-law concept of protecting some businessmen from other businessmen.

By Jackson's time, Phase 2 was replacing Phase 1. Businessmen on the make had replaced the New England aristocrats and the Virginia cocked hats as the most influential participants in the interplay of government and business. Increasingly, as the 19th century wore on, the most aggressive entrepreneurs in the business world expanded their power. Working with government in the halcyon days following the Civil War, this inner circle had pretty much its own way in fulfilling its own self-interest, and the fundamental objective of its interest was economic growth. Never handicapped by self-doubt, the members of this inner circle viewed their own self-interest and the public interest as synonymous. They expected the government, especially the federal government, to cooperate by making resources available cheaply, by establishing tariffs for infant and adolescent industries, and by providing subsidies for the merchant marine and capital for railroads. For their part, the leaders in the federal government seemed happy with the arrangement. They followed a policy of ambivalent laissez-faire: the government should abstain from action that would hurt business or, more accurately, what was thought to hurt business. The geniuses of local and state governments, being much closer to the mundane affairs of everyday life, could not follow the same abstract behavior that characterized federal policy. The national government was concerned with matters that were for the most part far removed from the interest and understanding of the average person, such as subsidies; research and development, especially in agriculture; social overhead capital; information gathering and dissemination; tariffs; sound and unsound money; and the Indians on and off the reservation. Local and state governments were busy with matters that directly and sometimes violently beset the seven senses, such as water supply, urban transport, education, garbage removal, slaughterhouse control, and street cleaning.

But whether on the federal or local level, it was clear that in the general give-and-take of political economy, business, or more accurately, groups of businessmen were first in the business-government enterprise. This was what an interested or disinterested observer would have expected, for to quote Adam Smith, "Civil government is established by property owners to safeguard their property; property and birth give those who benefit from both the major sway in the operation of government."

Whether one thinks the 1830-85 (circa) arrangement salutary or valetudinary depends upon one's system. Thus James Willard Hurst thought the first half of the 19th century was characterized by "a complicated affirmative use of law to furnish instruments and procedures designed to facilitate the release of

private individual and group energies." By contrast, another member of the literati thought "From 1776 onward, and with increasing consistency 'liberty' was translated as the freedom to engage in economic enterprise, while the more basic and humane significance of the term was gradually submerged."

For weal or woe, however, business and government were involved in an uneasy marriage. Even when the partners shared the same interests, each had its own career to think of. And above all there were too many in-laws who looked upon the groom with suspicion, envy, resentment, or outright hostility. The little fish in the business pond feared the appetites of the big fish. Manufacturers disliked bankers; merchants disliked them both; farmers, in their periodic, deflation-induced bouts of self-pity, sought a scapegoat or two. Most hostile of all were the intellectuals, the majority of whom found it impossible to sympathize with the businessman's aspirations and his belief that economic progress through economic enterprise was life's summum bonum. All of these groups, we must not forget, were convinced that they were the true representatives of the public interest and all of them argued that society was being exploited by the existing business-government alliance.

Concentrating their attack on big business, they all sought to alienate the government's affections with each group, as could be expected, seeking to enlist the government's help in advancing its own particular interest.

Objectively speaking, although none of us do, there is nothing wrong in being interested in one's own interest. But no group would ever concede that its desire to add to the government's influence rose from its deeper desire to advance its own self-interest. Rather, the rationale went something like this: all business is a contest between producer and consumer, buyer and seller. The nature of the contest requires arbitration and the natural arbitrator is government. Ergo, the government must step to the fore. Gone to the bones of the history of economic thought was Adam Smith's sensible judgment that government has only three duties to attend to -- the protection of society from external and internal enemies and the construction of certain kinds of public works.

Under the circumstances, the original marriage between big business and government could not last. Big business could not get any bigger, but the government had only begun to grow. Out of the inevitable disintegration came Phase 3 -- the era of increasing regulation of business and declining unfettered economic enterprise. In a substantial way, Phase 3 was the beginning of a long-term trend away from enterprise toward stability and away from emphasis on economic growth toward more concern with economic security.

The first evidence of disintegration occurred naturally enough on the state and local levels, but in short order it spread to the federal level as well. Its first important manifestation

on the higher level was not the ICC, but the Civil Service Act. In the subsequent progressive era, the direct election of senators, the vast expansion of government expenditures, and the rapid creation of a government bureaucracy were far more important in altering long-run government-business relations than the Sherman Act, the rumblings of Teddy Roosevelt, or even the construction of the Panama Canal.

Phase 3 lasted just about as long as Phase 2. By World War I, it had already become Phase 3½. And somewhere around 1932, it slipped easily into Phase 4 -- the era of government control. This transition from regulation to control did not take place in a series of jerks; it proceeded smoothly almost without interruption. Even the 1920s, that unjustly despised decade when business is thought to have reached the zenith of its prestige, certainly did not turn the clock back and it is questionable to what extent it slowed the clock down. Certainly there was no retreat among intellectuals, not even among those who were considered conservative intellectuals. "At present," wrote a writer in 1928, "business has a long way to advance before it can claim to have rendered government regulation unnecessary; indeed, its more recent history indicates that it has made government regulations more necessary as time has advanced. And the demand (for government regulation) does not come from government officials so much as it comes from special-interest groups." To most intellectuals and historians the results of the Progressive Era symbolized the transition from a society that feared government as the chief source of threats to freedom to a society in which private economic power was recognized as an equal source of danger. "The total effect of the progressive movement," wrote Louis Galambos, "was to break up the business lobby which had dominated American politics since the Civil War. In its place there developed a new style of pressure-group politics which was more open, more responsive to public pressure." I quite agree with Galambos about more people getting into the act, but I certainly question whether the new pressure groups were more responsive to public pressure.

In all this rambling, nothing has been said about Gabriel Kolko and his explanation of why government regulation came to be the custom of the land. To omit Kolko would be unforgiveable, and I hasten to avoid the unforgiveable.

To my mind, Kolko's great contribution was not his proof that businessmen were instrumental in putting together the federal regulatory network. It was his refutation of the still widely accepted fundamental premise in the orthodox explanation of the Progressive Era, namely that the last of the 19th century was characterized by incipient monopoly that aroused the wrath of the general public. On the contrary, unbridled competition was the bête noir of the era.

As you are all aware, Kolko then went on to argue (1) that business leaders failed in their attempts to control competition

and to rationalize industry through mergers; (2) that they therefore turned toward government for assistance; (3) that they controlled the federal political machinery, especially at the presidential level; (4) that they exerted their efforts toward creating a maze of federal regulatory agencies, in order to constrain competition and to prevent more radical action by "local democracy;" and (5) that their efforts were rewarded with immense success.

More cautious students of government-business relations, such as Robert Wiebe and Galambos, have chosen to put much more emphasis on the differences among businessmen than they suspect Kolko of doing. Galambos, for example, went to particular pains to point out that the Cotton Textile Institute took on an identity of its own. It became a medium for bureaucrats. Like all trade associations, it was led by persons who were not businessmen and it came to represent "a set of values that were not uniformly shared -- and in some cases were vigorously opposed -- within the cotton-textile industry."

Kolko often disclaimed the mildly expressed charge that he ignored differences among businessmen. Such "an obvious and irrelevant point," he countercharged, ignored the issue of who really had the power to direct the political process and what was done with that power. He also disclaimed any intention to imply that there was anything sinister in the businessmen's campaign to inject a mass of therapeutic regulations in the body economic. But his disclaimers lack conviction. Certainly, many members of the Kolko school have often violated the admonition "what God hath put asunder let not man (or woman) put together." They not only give the impression that all businessmen look and think alike, but they include in the business category all sorts of people and all sorts of things that do not belong in the business category because they have in no sense met the fundamental initiation requirements.

None of us should have been astounded by Kolko's thesis that business groups were chiefly responsible for the mushroom growth of federal regulation. It has long been recognized that a large number of businessmen, perhaps the overwhelming majority and possibly almost all, have been inordinately inconsistent in their economic views. Although their vocal chords recited the litany of laissez-faire, their inner thoughts dwelt on the benignity of government intervention.

I hasten to add that almost all of us have at one time or another made fools of ourselves on economic matters. Yet the inconsistency that permeated the business world cannot help but violate one's notions of what is orderly and rational. Similarly, the businessman's infatuation with government seems astonishing. But there is really nothing astonishing about either the thinking or the behavior. Fundamentally, it all sprang from a quest for stability or security. It is a natural tendency for humankind to prefer security to competition or in the economic theorist's

terminology, to prefer stability to rivalry. Despite rumors to the contrary, businessmen do bear some similarity to human beings; and like other human beings, they too have a propensity for security. If enterprise is the opposite of stability, what is astonishing is that enterprise was ever considered more desirable than security. After all, there is no good reason why academicians and Japanese should be the only ones privileged to enjoy tenure. And then too, most people prefer the stability-minded to the enterprise-minded. If they did not, Elbert Gary would not be preferred to Henry Clay Frick.

It takes a strong stomach and an unusually rigid backbone to tolerate laissez-faire and to enjoy competition as that ill-defined word is commonly used. There is no reason to believe that the run-of-the-mill businessman possessed such superhuman organs. And I am inclined to believe that today's career executive has even less tolerance for laissez-faire than the owner-entrepreneur of yesteryear had. But I hasten to add that I really do not know; I sometimes wish business historians would tell me.

In any event, possessed with a propensity to security and impressed by the ubiquitous warning, "If business doesn't do it, government will," and in a complacent but mistaken belief that government would always pay a quid for every business quo, a horde of businessmen were willing to let the nose of the government camel into the tent. Indeed, they sometimes dragged the camel in, nose and all. To be sure, like the Arab in the fable, they later regretted it, for the body of the government camel had a much stronger smell than had been hinted at by the camel's nose. Meanwhile, however, shortsighted expediency led to cries for government help. The list is long and depressing, headed by such masterpieces as ICC, NRA, pleas for special subsidies, and more recently, wage and price control disguised under the euphemistic label "incomes policy."

For its part, the history of government action, despite what legislators, jurists, and objective observers of the passing scene have occasionally said, is one of continuous effort to balance one group against another. Let us first concede for purposes of discussion, that government executives, legislatures, and administrators are interested in supporting or advancing that amorphous something called the public interest. But they cannot do so, for balancing the interest of diverse groups must result in compromise and compromise must of necessity result in a reduction of net utility. To express this somewhat differently, compromise produces a continuous series of prisoner dilemma games. At the same time, balancing one group against another must subvert the interests of the managerial class. The managerial class has neither the capacity nor the will to become the dominant ruling group. Its members are too prone to become conformists. Moreover, it is the smallest of all the power blocs and what is worse, it cannot present a united front. Nor can it control any

large block of votes. Its only link with government personnel is the extremely tenuous one of having a small number of economic interests in common.

So much for the discussion of the ins and outs of the romance, courtship, and rites of passage betwixt business and government. Undoubtedly, much exception can and will be taken to this version of what took place, but that does not much matter. The argument about why and by whose direction government influence grew is undoubtedly interesting, but like most interesting things in history, it is hardly as important as it is interesting. If business did have it all its own way, so what? In this case, the effects are more important than the reasons why. Assuming that a harmonious alliance between government and business really did exist, were the results good or bad for society? Question two: was the alliance or the tug-of-war between business and government good for business? Or, more specifically, was the continuous expansion of government good or bad for business? Here, the ground under my feet is very thin indeed, for business historians and economic historians for that matter have given almost no attention to either of the two questions. Much has been assumed but with little concrete evidence.

The problem is further exacerbated because there is no general agreement on what is good for business. Is it stability, or growth, or maximum profits? And what is good for one woman's business may be bad for another woman's business and vice versa. One common assumption is that what businesspersons want or think they want is ipso facto good for business. There is, of course, no evidence at all to support this illogic.

Another heroic assumption descending upon us from the philosophic stratosphere is that what business wants is ipso facto opposed to the public interest. The syllogism goes as follows: monopoly is against the public interest; the self-interest of business is monopoly; therefore what advances the self-interest of business violates the public interest.

I have no particular competence to judge whether a given policy philosophy or behavior is good for the public interest, or is socially responsible, or whether it advances or retards democracy. Except for the most blatant examples of sin, such as disagreeing with Gabriel Kolko or Ralph Nader, or the most blessed examples of piety, such as being in favor of the poor, the lame, and the ACLU, I simply do not understand what the terms mean, and I doubt whether anyone else really does, despite at least 50 years of seeking. I leave such matters to the philosophers and the behavioral scientists. With more discretion than valor, I prefer to confine the rest of my time to a few remarks on the question: did government policy advance or retard the rate of economic growth?

The group of scholars who can be called for want of a better name the antibusiness school seems to believe that the two, that is, business prosperity and general economic prosperity, have

nothing to do with each other. Indeed, they seem to imply the opposite, that is, what is good for General Motors and what is good for the Union Pacific is bad for the general Union. Thus Kolko, taking the ICC as a proxy for all government regulatory agencies, concluded that the ICC resulted in a sharp improvement in railroad welfare. Stocks paying dividends rose from 39 percent in 1888 to 67 percent in 1910. There are those who think that the reasoning which leads to this conclusion is on a par with the observation that as faculty salaries rise, the rate of drunkenness also increases.

Those who subscribe to the latter school, that is, those who believe in faculty sobriety, believe that business prosperity is a function of general prosperity, or as the economy goes, so goes General Motors. Until very recently, all of business history supported this conclusion. As the economy waxed, so waxed profits, in dollars and as a percentage of gross national product. Since 1950, however, and more especially since 1970, profits before taxes as a share of national income have declined sharply, on the order of from 27.5 percent in 1950 to 17.4 percent in 1973.

But back to the question of government policy and the rate of economic growth. There are only two ways to increase per capita real national income. Some slight increase might be achieved by lengthening the average number of hours worked but this is highly questionable. That leaves improvements in productivity as the only significant way to economic prosperity and a higher level of living. It can be argued, as Carter Goodrich argued, that government expenditures for internal improvements and social capital in the 19th century contributed importantly to the enhancement of the national income. So far as I know the only attempts to measure in actual dollars by how much canal expenditures enhanced the national income was made by Harvey H. Segal long before he left economic history for the more exciting life as one of the brilliant medicine men at First National City Bank. But his brave and ingenious efforts did not convince all the skeptics. More recently, Jeffrey G. Williamson has argued that Civil War financing contributed much more to capital accumulation than many of us were inclined to think. My feelings have always been deeply sympathetic to the conclusions of Williamson and Goodrich and others. But all that was in the 19th century. I believe that if business historians ever get around to the mundane and unimportant business of business profits, they may arrive at the same conclusion about American government policy that many English economic historians have reached about English government policy, "The recent commitment to promote a faster rate of growth in the economy through increased state intervention has clearly not been rewarded by any great measure of success."

My skepticism about the effects of overall government policy naturally applies to specific government policies and behavior as well. I think, for example, that Albro Martin's conclusion that the populism that permeated the ICC had a disastrous effect on

the railroads are much sounder than Kolko's belief that the government-business alliance in the ICC resulted in an orgy of railroad profits. I am tempted to run the whole gamut from aeronautics to welfare, but you will be relieved to know that I resist the temptation and in the interest of brevity, comment only on the effects on the political economy of fiscal policy.

Current economic theory, concerned as it should be with the short run, magnifies the importance of fiscal policy. For in the long run, the ups and downs of fiscal policy (and monetary policy as well) that are designed to influence the level of demand and employment have little or no effect on the performance of the economy. That is to say, they can do little to increase productivity of the hours of work. Indeed it can be argued quite plausibly that what is currently regarded as "proper" fiscal policy has an opposite effect.

Historians would be traitors to their craft if they rejected long-run analysis in favor of the more relevant short-run analysis. Perhaps this is the main difference between economists and historians. But even in the short run, there is quite evidently much that is wrong about fiscal theory and the supposed effects of fiscal policy on overall economic performance and on business profits. I even question whether current fiscal policy is conducive to business stability.

Recent research by some savant whose name I have fortunately forgotten concludes that intellectuals are just as gullible as the rest of the population. In fact, if anything they are more gullible as is evidenced by the way they cling to accepted fiscal theory. Orthodoxy assumes that there is a negative relationship between high budget positions and the growth of GNP. That is to say sharp increases in government expenditures and, more important, in government deficits are associated with more rapid growth in GNP and vice versa. The historical evidence hardly bears this out. Similarly, it is assumed that tax cuts stimulate economic activity and exert an upward pressure on the price level, while tax increases destimulate the general economy. Again, there is little historical evidence to support this widely accepted and comforting piece of deductive reasoning.

Among the half dozen or so outstanding features of the 1920s was a long and impressive series of tax reductions. Yet the price level was remarkably stable, and economic activity proceeded less in fits and starts than in a more or less smooth and gradual upward movement. More recently, the tax readjustments of 1964 and 1968 reflected the opposite of what fiscal theory predicted. It would seem, therefore, that history supports those who are skeptical or agnostic about the validity of fiscal theory. I know that such a judgment offends the religious faith of most economists, but as the Germans say, "Schade." I have always admired the loyalist who says, "My mother, drunk or sober." I am not equally impressed by the sentiment "fiscal policy, right or wrong."

But what has all this to do with business stability and business profits? Simply this: if fiscal policy fails to perform as advertised, it can hardly be helpful to business. As a matter of logic, if fiscal expansion or contraction does not work as it is supposed to, it must be because it is crowding out other resources and thus reducing their share of the pie. Current research indicates that there is and has been an inverse correlation between government expenditures and business profits. In the decades since the end of World War II, increases in government expenditures have been universally accompanied by declines in business profits. And when measured in terms of percentage of national income, the inverse correlation is even more striking. But, someone will surely say, these were years of relatively full employment. What happened during depression or severe recessions when unemployment was close to or in excess of 10 percent? Did increases in government expenditures sop up resources from the pool of the unemployed? You may be astounded to know that in the late 1930s (1934-40), increases in government expenditures had a neutral effect on business profits. In short, even with a multitude of unemployed resources, government expenditures had a crowding-out effect.

I began with a quotation from Rosebery; I conclude hours later with a quotation from Goethe that seems to me to epitomize what I have been saying. "Everything," Goethe said, "has been thought of before; the difficulty is to think of it again." And that after all, should be the historian's ever present matter.