

Business and the Fight for a Free Society

by

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Cato's Letters

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The Paradox of the Statist Businessman

by Theodore J. Forstmann

Possibly because I was never properly trained at a business school, I have always found entrepreneurial capitalism appealing, easy to understand, and as natural as walking or breathing. It is an economic model that focuses on growth and allows the individual the opportunity to employ his God-given talents. Success can be pursued and failure tolerated—in short, that is the way the world should work.

So when Ed Crane asked me to talk about the statist businessman, two things immediately struck me. The first was the theoretical contradiction in terms as, of course, most ordinary citizens would equate the word businessman with capitalist, not statist. The second was that it would be difficult to find anything too nice to say about that particular breed. But since I don't want to end up sounding like one of the retirees in southern Florida who went to a restaurant one night and complained so much that the waiter finally asked, "Is *anything* all right?" I want to preface my remarks with something that *is* right.

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It's a quote from Domingo Cavallo, finance minister of Argentina. "Each peso," he stated—and you could substitute "dollar" or any other currency—

is a contract between the government and the peso holder. That contract guarantees that each peso—as a unit of value that the holder has worked hard to get—will be worth as much tomorrow as today. If the government breaks the contract, it's breaking the law. The only role of government in the economy should be to guarantee the integrity of market transactions.

That's a simple statement, but somewhat revolutionary—revolutionary because its premise of a passive, limited government is radically different from the activist role government assumes today.

But these are revolutionary times, and the real revolution is one that reaches beyond politics and partisanship to challenge some very basic assumptions about the way the world works. Our Speaker of the House, Newt Gingrich, has warned that "American businesses can't win in the marketplace for products and

"Statist society promises you happiness in exchange for the better part of your freedom. Civil society merely guarantees your freedom. Happiness is up to you."

services if they concede defeat in the war of ideas." The battle lines of that war are not drawn so much between Republican and Democrat, or even conservative and liberal, as they are between two diametrically different worldviews.

The Statist Worldview

One view begins and ends with government. It is of a statist society in which the government regulates and mediates most human relationships—economic and otherwise. The other view begins and ends with the individual. It is of a civil society in which people organize themselves through vol-

untary association and exchange. Statist society promises you happiness in exchange for the better part of your freedom. Civil society merely guarantees your freedom. Happiness is up to you.

Perhaps we can understand the statist impulse on behalf of the unskilled and unschooled, the disabled and the disenfranchised, the infantile and the infirm. But why

“The statist businessman is simply doing his job. He didn’t make the rules; he just follows them.”

would the businessman choose to bargain with his most precious capital—freedom?

It would be easy to dismiss the statist businessman as either a knave or a fool. The sad truth is that he’s neither. Remember what Voltaire once said: “It is dangerous to be right when the government is wrong.” The statist businessman is simply doing his job. He’s probably just part of a big corporation. He didn’t make the rules; he just follows them. He doesn’t ask why the government holds all the cards; he simply accepts the hand he’s dealt. To play it safe, the bureaucratic businessman plays along.

But by joining rather than fighting the forces of an activist big government, he becomes part of the problem. Indeed, he becomes a significant part of the problem to which he contributes in three ways. Number one, he is a conservator—not a creator. Number two, he is a lobbyist. And number three, he is used as an argument against capitalism even though he is not a capitalist at all.

My first point is that the statist businessman is a conservative in the most literal sense of the word. He is a *caretaker*, not a *risk taker*. Rarely the owner of his own enterprise, he places a premium on permanence over growth. In his mission to preserve and protect, he seeks state shelter against what Schumpeter called “the perennial gale of creative destruction.” Put simply, he wants government to guarantee him security without risks, the opportunity to succeed without the possibility of failure.

The taxicab driver, the dry cleaner, and the barber can't operate that way. They don't have accounting departments; they can't afford to hire lawyers and lobbyists. The small businessman is close to the ground while the big businessman is flying at 50,000 feet above it—and at that altitude you don't see individuals, you see aggregates. The barber doesn't deal with aggregates; he deals

“The statist businessman is a caretaker, not a risk taker.”

with electricity bills and supplies and customers. As George Burns once said, “It's too bad that the only people who know how to run the country are too busy driving cabs and cutting hair.”

Given the essential conservatism of corporate culture—the aversion to risk, the resistance to change—you'd think that the statist businessman would quickly become a casualty in our ever-changing economy. If we were operating in a truly free market, he would. But he has bought himself insurance against that eventuality, which brings me to his second contribution.

Businessman as Lobbyist

The statist businessman is, by definition, a lobbyist. Having made his peace with 20th-century collectivism, he is fundamentally concerned with “who gets what” from government's redistributive powers. He seeks subsidies for himself and penalties and regulations for his competitors. He is the miserable figure Ronald Reagan described as the fellow who hoped the crocodile would eat him last.

After the 1994 election I read an article that reported that corporations and business PACs that had supported Democrats during the campaign were now tripping all over themselves to pay off the campaign debts of the Republican winners. It's called “catching the late train” in politics, and the destination is Washington. Those corporate contributors did not have some sort of epiphany or conversion; they merely reshuffled their political portfolios. In the words

of one donor, “We don’t really look at it as an eraser on the pencil, but as a way of letting the winner know we’d like to be the same friend to him as we were to the guy he defeated.”

It’s that kind of “friendship” that Secretary of Labor Robert Reich called into question when he challenged Congress to cut “corporate welfare.” Using a list drawn up by the Progressive Policy Institute, Reich estimates that the federal government could save \$225 billion over five years by cutting what he calls “Aid to Dependent Corporations”—welfare for the wealthy in the form of special subsidies and tax breaks. The list includes such things as tax breaks for pharmaceutical firms operating in Puerto Rico, credits for producers of ethanol, subsidies to farmers whose food sells at below government-set prices, and subsidies to utilities serving rural areas long after electrification—the program’s original purpose—has been achieved.

The statist businessman would tell you that Reich is completely wrong. I don’t agree. Amazingly, I believe he is completely right. Subsidies granted to particular corporations by the government are quintessentially anti-capitalist. But predictably, of course, Reich is right for all the wrong reasons. He wants to cut corporate welfare so that he can expand social welfare. He’s in favor of limiting business’s claim on government—he’s not in favor of limiting government’s control of business. He’s eager to abolish subsidies—not penalties. Because of that, statist

“The statist businessman does not give a bad name to statism; he gives a bad name to capitalism!”

Republicans will complain that Reich is hostile to capitalism. They are right. But remember, in this Alice in Wonderland debate, the programs he seeks to cut have nothing to do with capitalism to begin with.

Trashing Capitalism

The bureaucratic businessman is no better than any other special-interest group that feeds off of

Washington. But in one important sense he is much worse, which brings me to the third part of the problem he creates. Lobbyists give a bad name to the things they lobby for. The NEA gives a bad name to education. The AMA gives a bad name to medicine. But the statist businessman does not give a bad name to statism; he gives a bad name to capitalism!

The quote that's always trotted out to indict capitalism is from Thomas Murphy, former chairman of GM. "General Motors is not in the business of making cars. General Motors is in the

"We will not have a true revolution if we do not free those whom statism has failed to help and capitalism has failed to reach."

business of making money." In a truly free market, you wouldn't be able to make money without making a quality product. But the bureaucratic businessman is constantly finding ways around that difficulty. For instance, he can lobby the government for trade sanctions against Japan. He can lobby the government for subsidies. He can lobby the government for a taxpayer-paid publicity campaign. There are all sorts of ways that one can subvert the free market and still make a buck—all in the name of capitalism!

By committing statist sins under capitalist cover, the bureaucratic businessman bears false witness against the free market. And that's why I'm here today simply attempting to clarify the terminology of this debate. Think of it: we live in a world today where the liberals are really the conservatives; the conservatives are really the liberals; and half the businessmen aren't even capitalists. That's why I suggest that we anchor our debate to Cavallo's very simple definition of the role of government: "to guarantee the integrity of market transactions."

What does it mean, for example, when the president tells us, as he did in the State of the Union address, that the federal government still wants to be "partners" working "hand in hand" to help the middle class? Given the monumental evidence of government failure over the past 25

years, I'm not sure whether we should interpret that as a promise or a threat. Clinton is promising, once again, to "reinvent government." But what he doesn't understand is that the people don't want government *reinvented*; they want it *reduced*. They don't want bureaucracy *modernized*; they want it *minimized*.

What should we think when the president proposes a budget that would spend \$1.6 trillion and then tells us how much money that's going to save? When we're told that our government will spend \$1.6 trillion next year, our eyes glaze over. That's because trying to imagine \$1.6 trillion is like trying to imagine eternity or infinity. Finally, what does it mean when Republicans and Democrats alike warn us about all the "pain" involved in cutting government spending? Where's the pain in *their* spending less of *our* money? Maybe it's painful for the politicians, but for the average citizen, what pain is there in keeping more of his own money to invest the way he wants?

I also wonder what Mr. Cavallo would say about the whole debate over how much different plans to cut taxes would "cost" government. No government in the history of the world has borne the cost of anything. Taxes cost *people*. Tax cuts do not cost *government*.

Those simple principles are as true for Arizona as they were for Argentina. And it was a senator from Arizona who perhaps articulated

"Subsidies granted to particular corporations by the government are quintessentially anti-capitalist."

them best. "I have little interest in streamlining government or in making it more efficient," said Barry Goldwater,

for I mean to reduce its size. I do not undertake to promote welfare, for I propose to extend freedom. My aim is not to pass laws, but to repeal them. It is not to inaugurate new programs, but to cancel old ones that do violence to the Constitution, or

that have failed in their purpose, or that impose on the people an unwanted financial burden. . . . And if I should later be attacked for neglecting my constituents' "interests," I shall reply that I was informed that their main interest is liberty and in that cause I am doing the very best I can.

We should be thankful that we're not in the situation we found ourselves in only 20 or 30 years ago, when many feared—or hoped—that we were on the verge of becoming a socialist America. No one talks, as George McGovern or John Kenneth Galbraith once did, of nationalizing industries. By and large, the question of whether government can improve on the free market has been settled, and the answer is "no, it can't." It can't because that's not its role.

Extending the Capitalist Revolution

The question for the 21st century will be whether the free market can improve on the government; and I believe the answer is "yes, it can." As we look ahead to the challenges of tomorrow's globalized economy, the answer is not just that it *can* but that it *must*.

Even if the Republicans pass every item in their Contract with America, they will have succeeded only in liberating the economy, the top half of our society. The bottom half will still be mired in socialist bureaucracy. In that sense, the contract leaves intact our current social contract, one which Jack Kemp describes as "capitalism for the rich and socialism for the poor."

We may be winning the battle of ideas, but we could still lose the war. True revolutions

"I suggest that we anchor our debate to a very simple definition of the role of government: 'to guarantee the integrity of market transactions.' "

sweep across 100 percent of a society, not 50 percent. By all means let's liberate the economy. But we will not have a true revolution, and we will not be able to keep up with the coming chal-

lenges of the new economy, if we do not free those now quarantined in the decaying confines of the collapsing welfare state.

I am talking not just about the direct costs of exorbitantly expensive socialist policies; I am

“We should not debate how much different plans to cut taxes would ‘cost’ government. Taxes cost *people*. Tax cuts do not cost *government*.”

talking not just about the opportunity costs of all those who will not be joining us in creating the new economy; I am talking about the price of the continued human degradation of *those whom statism has failed to help and capitalism has failed to reach*. That situation is not just morally unconscionable, it is politically untenable. Remember, the statist businessman does not discredit statism, he discredits capitalism. And believe me, any increases in joblessness, or homelessness, or child poverty since the day the 104th Congress convened will be seen not as statist failures but as capitalist failures. If we were either a statist country or a libertarian, free-market economy, we’d know what to do. But we’re neither. And we’re both.

The hardest thing for a country to do is to cross the bridge of revolution. That’s because no matter how bad things get on this side of the bridge, there’s always the fear that things on the other side could be even worse. I believe that as we approach the 21st century, we need leaders who can tell us stories of the future—leaders with a vision of what life looks like on history’s other side. In the final analysis, revolutions are fueled not just by frustration, not just by theories, not just by outrage, but by a vision of a better future and the will to cross the bridge.

Corporate Giving: The Case for Enlightened Self-Interest

by Edward H. Crane

Lenin once said that the capitalists would one day sell the rope used to hang them. In that, at least, he has proven to be disturbingly close to the mark, with the only modification being that many capitalists seem determined to give the rope away. A truly curious aspect of American corporate philanthropy has been the tendency to give corporate profits to groups openly hostile to profits in general and to corporations in particular.

A recent survey by the Capital Research Center in Washington, D.C., found that the 146 corporations responding (out of the *Forbes* 250) gave more than twice the funding to generally anti-capitalist organizations that they did to groups supportive of the free-market system. There is reason to believe that the giving pattern of those companies not responding to the survey is on the whole even more skewed toward the economic and environmental left.

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That trend in corporate giving is disturbing on two accounts. First, it is not in the long-term interests of shareholders or employees. Second, it is an abrogation of a broader societal obligation

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corporations have, as centerpieces of the free-enterprise system, to promote understanding of and support for market capitalism. Americans have a much higher level of respect for the business community than most businesspeople realize.

The typical senior business executive who is expected to address issues of public concern is often confronted by anti-corporate activists, skeptical (if not hostile) media, and government bureaucrats who derive great psychic income from the arbitrary power they wield over corporations. Perhaps it is therefore understandable that so many executives assume a defensive, almost apologetic posture when it comes to speaking out. The truth is, however, that the vast majority of Americans have few axes to grind with corporations. They respect competence, innovation, productivity, and, yes, profits. If many detractors of corporate America are motivated by envy, most Americans take genuine pleasure in the legitimate achievements of others, including corporations.

The point is, simply, that senior executives with the courage to speak out in defense of capitalism and the role their corporations play in our society would find a much stronger positive response than they might imagine. Corporate executives, because of the somewhat hostile public environment they find themselves in, tend not to recognize the power of moral suasion they possess. And the moral argument for capitalism is made all the more compelling because capitalism is a system based on voluntary exchange, rather than compulsion. Capitalism is a moral system.

It is important to recognize that the revolu-

tions that have occurred in Eastern Europe are less revolts against communism—a system that has been intellectually bankrupt for decades—than they are revolts against government control of people’s lives. People have risked their lives for the right to be free to choose, as Milton Friedman put it. They want to choose where they live, what they read, at which jobs they work, and for how much money. The victory of capitalism over socialism is more fundamentally a victory of freedom over coercion.

Claiming the Moral High Ground

The very fact that choice (and private property) is at the heart of capitalism provides the business executive with a clear-eyed view from the moral high ground, if only he chooses to stand on it. Behind the moral posturing of capitalist detractors invariably lie schemes to limit individual choice—to direct the workings of the marketplace by bureaucratic edict and coercive redistribution. The chipping away at our free-enterprise system by critics of business should be dealt with through a principled counterassault rather than tepid protestations and financial handouts that serve only to embolden the adversary.

The lack of a vigorous, principled business-community stand in support of the free-market system has been a significant factor in the omi-

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nous growth of government during much of this century. The business community should, in fact, support limited government in general—not just in the economic realm—because it is the principle of limited government that ultimately protects market capitalism.

More than 200 years ago Thomas Jefferson wrote, “The natural progress of things is for liberty to yield and for government to gain

ground.” Certainly events in the 20th century should remind us of the wisdom of Jefferson’s admonition. In the early part of this century government spending at all levels—federal, state, and local—amounted to just 10 percent of national income. By 1950 the percentage had risen to 26 percent. Today, total spending at all levels of government has reached 43 percent of national

“The business community should support limited government because it is that principle that ultimately protects market capitalism.”

income. The greater the amount of private-sector money spent by the public sector, the less efficient and productive will be the market system, and the less competitive American industry will be in the international marketplace.

The Systemic Nature of Government Growth

One of the great dangers of the present approach to public policy taken by the business community is that it fails to recognize government’s encroachment on the private sector as a *systemic* problem, the “natural progress of things” that Jefferson warned us of.

The literature from distinguished free-market economists on the growth of government is extensive. To begin with, there is the Public Choice School, led by Nobel laureate James Buchanan, which makes a persuasive case that bureaucrats are not the disinterested public servants our high school civics texts might have led us to believe they are. Like the rest of us, bureaucrats are motivated in good measure by self-interest. Indeed, the bureaucratic imperative is constantly to generate rationalizations for expanding existing government programs, if not creating new ones.

Another Nobel laureate, Milton Friedman, has written about the “tyranny of the status quo.” Friedman describes the process whereby a bill will be debated for years, even decades, only to pass in Congress by a single vote. From that

point forward, however, the only debate is over whether the budget should be increased by 5 percent or 15 percent. The new government program is protected by what Friedman refers to as the “Iron Triangle”—the direct beneficiaries of the program, the congressional oversight committee, and the federal agency charged with administering it. Billions of dollars are spent annually by the federal government on consultants (whose existence depends on the government) to determine the value of (read, justify) programs. To suggest that a program has proven more expensive than its proponents had claimed it would, or to challenge the efficacy of a program once it is in place, is considered somewhat ill-mannered inside the Beltway.

There are other powerful reasons for the growth of government, also unrelated to the value of that growth. For instance, programs typically dispense concentrated benefits while costs are diffused. When that is not the case, as in the recent catastrophic health care bill (directly tied to increased taxes on the elderly), the chances of stopping the growth of the state are greatly enhanced. In addition, Congress has, through incumbent-protection legislation, created an institution virtually impervious to voter discipline. The “culture of spending” that exists inside the Beltway and in the state capitals tends to distort the good sense of even the best intentioned legislators.

More Than an Academic Exercise

Determining the causes of government growth and the commensurate threat to the viability of the free-enterprise system is more than just an acade-

“The list of major government failures, if not endless, is nevertheless extensive.”

mic exercise. If a business is going to succeed, it must have not only appropriate management systems in place but also a political environment that is hospitable to capitalism and conducive to economic growth.

The purpose of this paper is not to develop an exhaustive case against big government. It is to outline the most effective approach to corporate giving consistent with the interests of shareholders, employees, and consumers. But it would be shortsighted to ignore the *systemic* failures of government in areas outside of business regulation and taxation. Those failures are directly relevant to the destructiveness of government intervention in the marketplace.

Business in America has, for the most part, taken a rather myopic view of public policy, lobbying for changes in this bill, influencing the

“If the free-enterprise system is to survive in the United States, it is imperative that the business community develop an effective strategy for saving it.”

markup of that bill, as often asking for government protection and favors as fighting off unwanted taxes and regulations. Policy-research institutes and public-interest groups are more likely to receive funding from corporate America if they are on the pro-government-intervention side of the fray.

That is a serious strategic error. As former secretary of the treasury William E. Simon wrote in the *Wall Street Journal* two years ago, “We in the American business community have a right and a responsibility to steer our gifts to institutions committed to maintaining freedom.”

Moreover, the myopic approach to public policy is dated and unsophisticated. In the past decade American business has revolutionized its management techniques. Faced with the reality of a global marketplace, corporations that had survived for decades employing rigid, top-down management systems have come to recognize that employee involvement and feedback are essential to operating at competitive levels of productivity. The corporate world is ready for another revolution, this time in its 1960s-style approach to corporate giving.

A History of Government Failure

The failure of government runs the gamut of issues. For all practical purposes, government has a monopoly on education. Over the past three decades real spending per pupil has tripled while test scores have steadily declined. Yet the government education bureaucracy from the federal to the local level argues that the problem is lack of funds.

The Social Security system, originally sold as a safety net for the indigent elderly, now provides the majority of retirement income for a majority of Americans. As a pay-as-you-go system, it has deprived the economy of true savings, and it now offers individuals entering the workforce a rate of return upon retirement that we estimate to range from -2 percent to +2 percent. And that assumes a 26 percent combined payroll tax early in the next century. Added to that is the remarkable fact that, unlike participants in a private retirement plan, individuals do not own the corpus of money paid into Social Security over their working lives.

In the area of welfare, where the state has assumed a massively larger role since the Great Society programs of the 1960s, more money has led directly to larger bureaucracies and more people on welfare. Charles Murray's path-breaking book, *Losing Ground: American Social Policy, 1950-1980*, documents the self-defeating incentives government welfare programs have created, often severing what he calls the "tendrils of community" by displacing private charities and absolving capable individuals from any responsibility for their own lives.

The list of major government failures, if not endless, is nevertheless extensive. When one

"Business must stop using government to gain a temporary competitive advantage in the marketplace."

looks at government attempts to regulate business, the results are much the same. We estimate that deregulation of trucking has saved con-

sumers on the order of \$60 billion a year, not just in lower shipping rates but, even more important, from the ability of firms to develop just-in-time inventory systems. Airline deregulation has allowed millions more Americans every year to fly at lower rates. What problems of congestion remain are primarily the result of the failure to

“The present approach to public policy taken by the business community fails to recognize government’s encroachment on the private sector as a systemic problem.”

privatize the air traffic control system and the airports themselves, which have not responded to increased traffic as a market entity would, by increasing capacity.

Perhaps the prime example of government failure in the business world is the savings-and-loan debacle. S&Ls have always been something of a creature of government—not a market creation. When the yield curve moved sharply downward in the 1970s, deregulation of investments and interest rates became essential. Unfortunately, Congress not only failed to deregulate federal deposit insurance, it actually increased coverage to make it feasible for individuals and institutions to federally guarantee tens of millions of dollars of deposits. Without depositor discipline, some \$500 billion of bad investments were made—to be underwritten by the American taxpayer.

Despite the remarkably unimpressive record of government involvement in society—greatly transcending the limited role envisioned by the Founders—the American business community has allowed itself to be thoroughly cowed by the opponents of capitalism. Instead of standing up to its opponents, the business community has attempted to appease them at every turn. Instead of proclaiming the moral superiority of capitalism, it has conceded the moral high ground to the likes of Ralph Nader. Consider Nader’s vision for America as revealed in a recent magazine article: “‘How’s your hand?’

Rosenfield asks. Nader looks at the hand he scalded in a sink a few days back in Sacramento. ‘Better,’ Nader says. ‘That hot water was almost boiling. The government hasn’t set temperature limits in Sacramento, so that’s what happens.’”

There is a point that the business community seems not to grasp. If the problem with government is systemic, then orienting one’s defense to protect the status quo is a mistake. For the status quo is not a given set of programs. It is, rather, a *process*. And that process is leading inexorably to ever greater government involvement in all aspects of life. It is leading to a society in which Americans will have the benevolent hand of government determine the temperature of the hot water in their hotel rooms.

Yet how often do corporate representatives and business lobbyists operate on the assumption that their latest cave-in, to appease anti-capitalist activists, must surely be all the activists really want? It is not. *They want to determine the temperature of the water in your hotel room.* The danger of government is systemic. It cannot be fought, at least not successfully, in the long run, on an ad hoc, piecemeal, and reactive basis. It most assuredly cannot be fought by letting the opponents of free enterprise determine the ground rules for the debate.

“Politically Correct” Intimidation

To be blunt, the 1960s’ approach to giving placed corporate America (in general—there are several commendable exceptions to the rule) in the vanguard of what has only recently been dubbed “politically correct” thinking. A piece in

“The corporate world is ready for another revolution, this time in its 1960s-style approach to corporate giving.”

the *New York Times* last fall explained that “p.c.,” as it is often called, reflects “a large body of belief in academia and elsewhere that a cluster of opinions . . . defines a kind of ‘correct’ attitude toward the problems of the world, a sort of

unofficial ideology. . . .” The issues in the cluster include ecology, culture, and foreign policy. The article goes on to note the Marxist influence on some p.c. thinking and that “the cluster of politically correct ideas includes a powerful environmentalism” and an anti-capitalist mentality.

The whole phenomenon, the article concludes encouragingly, is being challenged by intellectuals willing to stand up to the left: “But

“Business has allowed itself to be thoroughly cowed by the opponents of capitalism. Instead of standing up to its opponents, it has attempted to appease them.”

more than an earnest expression of belief, ‘politically correct’ has become a sarcastic jibe used by those conservatives and classical liberals alike, to describe what they see as a growing intolerance, a closing of debate, a pressure to conform to a radical program or risk being accused of . . . thought crimes. . . .” To the list of politically correct ideas one could confidently add the views that corporations are “exploitative” and that profits are “obscene.”

It should be noted here that, without some kind of mental self-flagellation and deep-seated guilt over being a part of Western civilization, one is not considered to have seen the light. Corporate America has been an especially sensitive target for the p.c. enforcers in our society, visibly wincing when accused of being out of step. Funds to support p.c. causes, including anti-business agitation, have been quickly forthcoming from the corporate community for the past 30 years.

The Politics of Environmentalism

The collapse of the intellectual case for socialism and the planned economy has led many anti-capitalist activists into a new camp: the environmental movement. To be sure, concern over a clean and healthy environment is something most Americans share. Corporate America has not al-

ways acted responsibly with respect to the environment. Advocates of the free market should support the “polluter pays” principle of protecting the environment, but there must be sensible, rational standards for what constitutes unacceptable levels of pollution.

The environmental movement has, for the most part, been taken over by individuals with a political agenda that is considerably more ambitious than merely cleaning up the environment. What leftist environmentalists recognize and most Americans don’t think about is the fact that *economic activity is inherently “polluting.”* It necessarily entails the transformation of scarce resources into higher valued objects and then into some form of “refuse.” Thus, in the name of eliminating pollution, nearly all human action could be subject to regulation. But to allow the environmental movement to micromanage levels of pollution and the environmental consequences of economic activity is to invite central economic planning via the back door.

It should not be considered alarmist to suggest that many leaders of the environmental movement have just such an agenda in mind. Indeed, their philosophy transcends an anti-business posture and at times seems aimed squarely at the very idea of improving the human condition.

During the brief window when there was heightened optimism over the viability of “cold fusion,” the *Los Angeles Times* interviewed sever-

“Instead of proclaiming the moral superiority of capitalism, business has conceded the moral high ground to the likes of Ralph Nader, who wants the benevolent hand of government to determine the temperature of the hot water in hotel rooms.”

al leading environmentalists to get their views on the subject. One might have thought that the prospect of clean, inexpensive energy would be cause for an environmentalist celebration. But one would have been wrong. Paul Ehrlich said that viable cold fusion would be “like giving a

machine gun to an idiot child.” Jeremy Rifkin said, “It’s the worst thing that could happen to our planet.” Barry Commoner, who once ran for president on a socialist platform, offered the helpful advice that we not convert our plants and equipment to cold fusion until it is proven to work. Otherwise, he said, it would be “like starting to build a bridge over a river without know-

“There is an anti-progress, almost Luddite mentality behind many of the demands of the environmental movement.”

ing where the other side is.” Luckily, American industry did not switch to cold fusion without first finding out if it worked.

Our point is that accommodating the environmental movement is an endless task. There is an anti-progress (anti-human?), almost Luddite mentality behind many of the demands from this group, as the above quotes from their leaders reveal. The Earth Day slogan was “We changed the world. Now it’s time to change it back.” From a capitalist standpoint, there is quite literally no satisfying those people.

The accommodating approach of business to the Clean Air Act of 1990 illustrates the dangers involved here. The act imposes an enormous burden on our economy, which we estimate to be in the range of \$30 billion to \$40 billion a year. Further, it imposes on business a bureaucratic command-and-control system that greatly inhibits the flexibility industry needs to stay competitive. And all that is done in the name of such problematic goals as reducing carbon dioxide in the air in order to solve an acid rain problem that the best scientific evidence says does not even exist. The television program *60 Minutes*, which is hardly biased in favor of business, devoted a segment to the absurd cost/benefit ratio of the Clean Air Act. Yet the business community, instead of fighting the act on a fundamental level, opted to accept the major premise and hustle to patch in damage-control nuances.

An even more recent example of a major

business capitulating to disingenuous lobbying by an environmental group is the McDonald's Corporation's agreement to cease using foam packaging at the behest of the Environmental Defense Fund. The fact that McDonald's was on the verge of a major recycling project for its foam containers or, more important, that total worldwide human production of chlorofluorocarbons (the offending chemicals) is less than 1/400 of the chlorine released into the atmosphere by sea water evaporation made no difference. The politically correct position won an easy victory.

Indeed, solid-waste management and "wasteful" product packaging are among the latest rationalizations for regulating business. State and local laws are proliferating. Congress is working on reauthorization of the Resource Conservation and Recovery Act, which will be horrendously expensive and without tangible benefit, and the Environmental Protection Agency is proposing expensive new regulations for local landfills. Once again, corporations appear all too ready to concede the left's premises in the hope of winning some marginal compromises. It will not work. An examination of the premises makes that clear.

The prejudice against disposable product packaging is actually a prejudice against consumption. The (false) claim that Americans waste too much masks a belief that Americans consume too much. The prejudice against consumption is itself based on the fallacy that resources are finite, as well as on a fundamental belief that

"The (false) claim that Americans waste too much masks a belief that Americans consume too much."

human action disturbs the natural world. Compromise will only whet the left's appetite. If its premises go unchallenged, we will move inexorably toward ever wider recycling regulations, packaging restrictions, deposit policies, and even product bans. That would be a major step toward the politicization of business decisionmaking.

All human action involves tradeoffs, and the very purpose of a market economy is to make possible intelligent trading off. It does so through the price system, which encapsulates socially dispersed knowledge about supply and demand and puts it into a form usable by all participants in the market. The anti-market mentality is characterized by a refusal to believe that tradeoffs are unavoidable.

For example, recycling is presented as a costless method of reducing waste and saving resources. No consideration is given to the resources used in the recycling process itself. The handling of separated materials requires more vehicles that use more fuel and create more emissions. The production of foam packaging, which was devised in response to the anti-paper, save-a-tree lobby, is more energy efficient and less polluting than that of other forms of packaging. According to research, in the United States, where there is said to be more packaging “wasted,” there is less *food* thrown away than in countries where less packaging is used. Finally, recycling costs consumers time. Why should the environmental movement have the power to decide that consumers’ time is worth less than they think it is? Such tradeoff considerations will not be found in the literature of the recyclists.

Government is incapable of making intelligent decisions about what kind of packaging is best; it simply does not have the necessary information. The factors that go into a market-based

“Corporate representatives must be directed to take principled stands in support of an open-market system when testifying or lobbying.”

decision include the relative scarcity of the competing materials and the preferences of consumers. To ensure that the price system faithfully reflects real conditions, it is necessary that all costs be “internalized”; that is, every scarce resource must carry a market price. Thus, it is essential that landfill services and other disposal

costs not be subsidized by government at any level. Such a subsidy distorts decisionmaking toward more packaging because consumers do not pay the full costs of using it. In contrast, government efforts to increase the cost of using packaging will result in other, unintended losses (such as food, as noted above). If consumers must pay the true costs of disposal, they will make packaging decisions consistent with their values, with their means, and, without intending it, with what economists call “social utility.” We thus can say that the free market promotes *rational conservation*.

As noted, the corporate response to date has not been encouraging. It has been ad hoc, material specific, and fragmented. The very least American business could do to protect the remnants of free enterprise that we enjoy would be to make contributions, not to groups that seek greater control over people’s economic activities, but to those that will develop and propagate the kind of arguments outlined above.

A Principled Approach to Public Affairs

If the free-enterprise system is to survive in the United States, it is imperative that the business community develop an effective strategy for saving it. Without a principled counteroffensive against those forces determined to destroy it, the corporation in America has a less promising future than the spotted owl. The environmental movement, egalitarian ideologues, and high-tax redistributionists will not lose sight of their goals simply because your corporation has made an accommodation to their latest demands.

In order to seize the moral high ground, however, the first thing the business community must do is stop using government to gain a temporary competitive advantage in the marketplace. Doing so not only hurts competitors, it also imposes costs on consumers. Part of the new enlightenment of corporate America, in addition to employee-oriented management, is a recognition that the consumer (at whatever level of production) must be treated with respect. In addition, it is difficult if not impossible to maintain an entrepreneurial spirit in the workplace while

diverting corporate resources to manipulating the coercive levers of government to gain competitive advantage. Is the company's goal to make the best product at the lowest price or to unfairly restrict competition and consumers? Corporate America cannot have it both ways.

As Paul Weaver wrote in his Cato Institute/Simon and Schuster book *The Suicidal Corporation: How Big Business Fails America*,

The effort to grab competitive advantage from the political process doesn't work anymore, for the same reason that protectionism doesn't work. The effort to beggar one's neighbor soon becomes apparent to the neighbor, and he proceeds to do something about it. Fifty years ago and more, business's efforts in the U.S. to lobby government for advantages at the expense of many parts of the population stimulated farmers, workers, consumers, and others to organize and lobby for protection and subsidies of their own. Over the years, it worked all too well. Sooner or later the policymakers got around to giving at least something to nearly everyone. The heavy, unpredictable, economically harmful burden that government puts on American business today is the end result, direct and indirect, of a century of business lobbying.

Under the pressures of a competitive global economy, American executives are beginning to face up to this shocking and disillusioning truth. As they do, I believe—I hope—that they will turn away from the blind, manipulative, self-destructive selfishness that is corporatism and begin to embrace the humane system of enlightened self-interest and voluntary cooperation under law that some call capitalism.

To achieve that goal, corporate representatives must be directed to take principled stands in support of an open-market system when testifying before Congress or lobbying in its halls. Certainly they should stop developing such close relationships with members of Congress and

their staffs that they end up lobbying the corporation on behalf of government.

In general, one of the most highly leveraged means of influencing the public policy debate is

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support of policy-research institutes and public-interest advocacy groups. Regrettably, most corporate support for such organizations is perversely invested. There are a good number of important, efficient organizations supporting capitalism and limited government that are deserving of corporate support—much more so than many groups that receive much more. We recommend the following guidelines for corporate support of policy-research and advocacy groups:

1. The organization should be openly supportive of free enterprise and limited government.
2. The organization should be non-polemical and nonpartisan.
3. Its product should be professionally packaged and marketed.
4. Avoid endowed organizations unless they appear to be using the income streams from their endowments efficiently.
5. The policy approach should be innovative, entrepreneurial, and designed to move the debate off dead center. Avoid supporting groups that spend a high percentage of their resources defending the status quo.
6. Do not support organizations that accept government funds.
7. The organization should have a high level of output and visibility relative to its resources.

In his preface to *Patterns of Corporate Philanthropy*, former Delaware governor Pete du Pont wrote,

If the public policy program requesting funds is designed to change things at the

margin, by five or ten percent, forget it. . . . Become the entrepreneurs your companies' founders once were. Look for exciting new ideas, bold new solutions, interesting new experiments to be tried, and give them a chance, because that is where America's future lies.

During the past decade, America's corporations have displayed courage in managing their own affairs. While government has relied ever more on an outdated model of bureaucracy, corporations have adapted to the new realities of the information age by cutting bureaucracy and relying ever more on market forces to dictate decisions. Now, as they look at their public policy philanthropy, corporations need to take a page from their own lesson books and promote a new approach to public policy, an approach that seems radical only by the standards of American government in the 1990s.

Last July in a *Wall Street Journal* op-ed titled "Socialism Is Dead; Leviathan Lives," James Buchanan wrote, "The death throes of socialism should not be allowed to distract attention from the continuing necessity to prevent the overreaching of the state-as-Leviathan, which becomes all the more dangerous because it does not depend on an ideology to give it focus." Consistent, principled opposition to Leviathan on the part of American business can make an enormous difference. Support of free-market public-policy research groups should be a major part of the principled opposition.

The distinguished University of Pennsylvania historian Alan C. Kors, in discussing the decline in importance of American universities, said in a recent interview, "But what's coming out of certain think tanks and certain foundations and certain institutes is very exciting and much more central to the real debates about the problems of American society." It is time for corporate America to decide which side of the debate it is on.