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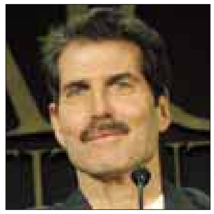

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Big Business and Big Government

BY TIMOTHY P. CARNEY

Big business has too much power in Washington, according to 90 percent of Americans in a December 2005 poll.

Every week, headlines reveal some scandal involving politicians, lobbyists, corporate cash, and allegations of bribes. CEOs get face time with senators, cabinet secretaries, and presidents. Lawmakers and bureaucrats take laps through the revolving door between government and corporate lobbying. Whatever goes on behind closed doors between the CEOs and the senators can't be good or the doors would not be closed.

Just what is big business doing with all this influence? There are many assumptions about big business's agenda in Washington. In 2003 one author asserted, "When corporations lobby governments, their usual goal is to avoid regulation."

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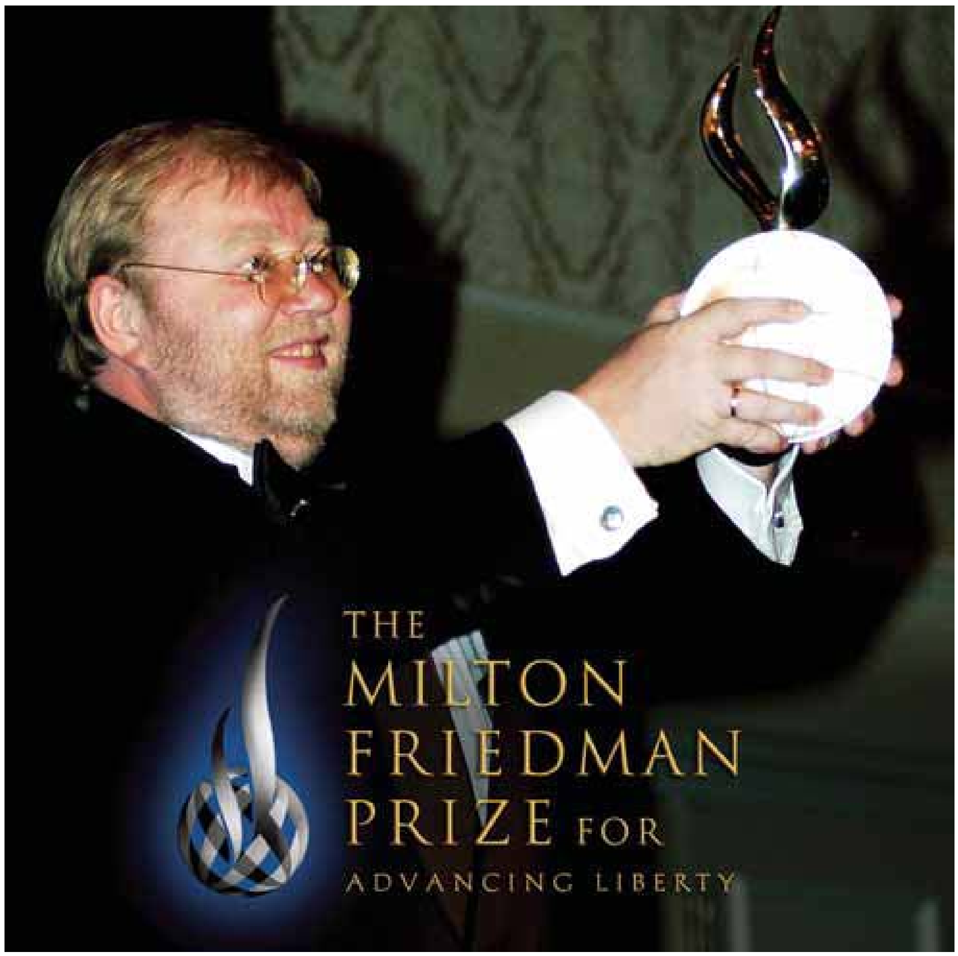
TIMOTHY P. CARNEY is the author of *The Big Ripoff: How Big Business and Big Government Steal Your Money* (Wiley, 2006), on which this article is based.



Former Estonian prime minister Mart Laar was presented with the 2006 Milton Friedman Prize for Advancing Liberty "in recognition of his brave defiance of conventional economic wisdom and his visionary efforts to replace the legacy of communism with a free, dynamic, and flourishing Estonian economy." Francisco Flores, former president of El Salvador and a member of the International Selection Committee, presented the prize to Laar at a gala dinner at Chicago's Drake Hotel on May 18. MORE ON PAGES 3 – 7

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That statement reflects the conventional wisdom that government action protects ordinary people by restraining big business, which, in turn, wants to be left alone. Historian Arthur Schlesinger articulated a similar point: "Liberalism in America [the progression of the welfare state and government intervention in the economy] has been ordinarily the movement on the part of the other sections of society to restrain the power of the business community."

The facts point in an entirely different direction:

- Enron was a tireless advocate of strict global energy regulations supported by environmentalists. Enron also used its influence in Washington to keep laissez-faire bureaucrats *off* the federal commissions that regulate the energy industry.
- Philip Morris has aggressively supported heightened federal regulation of tobacco and tobacco advertising. Meanwhile, the state governments that sued Big Tobacco are now working to protect those same large cigarette companies from competition and lawsuits.
- A recent tax increase in Virginia passed because of the tireless support of the state's business leaders, and big business has a long history of supporting tax hikes.
- General Motors provided critical support for new stricter clean air rules that boosted the company's bottom line.

The Big Myth

The myth is widespread and deeply rooted that big business and big government are rivals—that big business wants small government.

A 1935 *Chicago Daily Tribune* column argued that voting against Franklin D. Roosevelt was voting for big business. "Led by the President," the columnist wrote, "New Dealers have accepted the challenge, confident the people will repudiate organized business and give the Roosevelt program a new lease on life." However, three days earlier, the president of the Chamber of Commerce and a group of other business leaders met with FDR to support expanding the New Deal.

> "The myth is widespread and deeply rooted that big business and big government are rivals—that big business wants small government."

Almost 70 years later *New York Times* columnist Paul Krugman assailed the George W. Bush administration: "The new guys in town are knee-jerk conservatives; they view too much government as the root of all evil, believe that what's good for big business is always good for America and think that the answer to every problem is to cut taxes and allow more pollution." At the same time, "big business" just across the river in Virginia was ramping up its campaign for a tax increase, and Enron was lobbying Bush's closest advisers to support the Kyoto Protocol on climate change.

Months later, when Enron collapsed, writers attributed the company's corruption and obscene profits to "anarchic capitalism" and asserted that "the Enron scandal makes it clear that the unfettered free market does not work." In fact, Enron thrived in a world of complex regulations and begged for government handouts at every turn.

When commentators *do* notice business looking for more federal regulation, they mark it up as an aberration.

When a *Washington Post* reporter noted in 1987 that airlines were asking Congress for help, she commented, "Last month, when the airline industry found itself pursued by state regulators seeking to police airline advertising, it looked for help in an unlikely place—Washington." In truth, airline executives had been behind federal regulation of their industry for decades and had aggressively opposed deregulation.

In fact, for the past century and more big business has often relied on big government for support.

The History of Big Business Is the History of Big Government

As the federal government has progressively become larger over the decades, every significant introduction of government regulation, taxation, and spending has been to the benefit of some big business. Start with perhaps the most misunderstood period of government intervention, the Progressive Era from the late 19th century until the beginning of World War I.

President Theodore Roosevelt is usually depicted as the hero of this episode in American history, and his "trust busting" as the central action of the plot. The history books teach that Teddy empowered the federal government and the White House in a crusade to curb the big business excesses of the "Gilded Age."

A close study of Roosevelt's legacy and that of Progressive legislation and regulation, however, yields a far different understanding and shows that the experience with meat—big business calling in big government for protection—was a recurring theme. Roosevelt expanded Washington's power often with the aim and the effect of helping the fattest of the fat cats.

Today's history books credit muckraking novelist Upton Sinclair with the reforms in meatpacking. Sinclair, however, deflected the praise. "The Federal inspection of meat was, historically, established at the packers' request," he wrote in a 1906 magazine article. "It is maintained and paid for by the people of the United States for the benefit of the packers."

Gabriel Kolko, historian of the era,

concurs. "The reality of the matter, of course, is that the big packers were warm friends of regulation, especially when it primarily affected their innumerable small competitors." Sure enough, Thomas E. Wilson, speaking for the same big packers Sinclair had targeted, testified to a congressional committee that summer, "We are now and have always been in favor of the extension of the inspection, also of the adoption of the sanitary regulations that will insure the very best possible conditions." Small packers, it turned out, would feel the regulatory burden more than large packers would.

Consider the story of one of the most famous "trusts" in American folklore: U.S. Steel.

In the 1880s and 1890s, rapid steel mergers created the mammoth U.S. Steel out of what had been 138 steel companies. In the early years of the new century, however, U.S. Steel saw its profits falling. That insecurity brought about a momentous meeting.

On November 21, 1907, in New York's posh Waldorf-Astoria, 49 chiefs of the leading steel companies met for dinner. The host was U.S. Steel chairman Judge Elbert Gary. The gathering, the first of the "Gary Dinners," hoped to yield "gentlemen's agreements" against cutting steel prices. At the second meeting, a few weeks later, "every manufacturer present gave the opinion that no necessity or reason exists for the reduction of prices at the present time," Gary reported.

The big guys were meeting openly—with Teddy Roosevelt's Justice Department officials present, in fact—to set prices.

But it did not work. "By May, 1908," Kolko writes, "breaks again began appearing in the united steel front." Some manufacturers were undercutting the agreement by dropping prices. "After June, 1908, the Gary agreement was nominal rather than real. Smaller steel companies began cutting prices." U.S. Steel lost market share during this time, which Kolko blames on "its technological conservatism and its lack of flexible leadership." In fact, according to Kolko, "U.S. Steel never had any particular technological advantage, as was often true of the largest firm in other industries."

> "Theodore Roosevelt expanded Washington's power often with the aim and the effect of helping the fattest of the fat cats."

In this way, the free market acts as an equalizer. While economies of scale allow corporate giants more flexible financing and can drive down costs, massive size usually also creates inertia and inflexibility. U.S. Steel saw itself as a vulnerable giant threatened by the boisterous free market, and Gary's failed efforts at rationalizing the industry left only one line of defense. "Having failed in the realm of economics," Kolko writes, "the efforts of the United States Steel group were to be shifted to politics."

Sure enough, on February 15, 1909, steel magnate Andrew Carnegie wrote a letter to the *New York Times* favoring "government control" of the steel industry. Two years later, Gary echoed this sentiment before a congressional committee: "I believe we must come to enforced publicity and governmental control . . . even as to prices."

When it came to railroad regulation by the Interstate Commerce Commission, the railroads themselves were among the leading advocates. The editors of the *Wall Street Journal* wondered at this development and editorialized on December 28, 1904:

> Nothing is more noteworthy than the fact that President Roosevelt's recommendation in favor of government regulation of railroad rates and[Corporation] Commissioner [James R.] Garfield's recommendation in favor of federal control of interstate companies have met with so much favor among managers of railroad and industrial companies.

Once again, big business favored government curbs on business, and once again, journalists were surprised.

To cast it in the analogy of Baptists and Bootleggers, the muckrakers such as Sinclair were the "Baptists," holding up altruistic moral reasons for government control, and the big meatpackers, railroads, and steel companies were the "Bootleggers," trying to get rich from government restrictions on their business. Roosevelt was allied to the "bootleggers," the big meatpackers in this case. To get federal regulation, he found Sinclair a handy temporary ally. Roosevelt had little good to say about Sinclair and his ilk; he called Sinclair a "crackpot."

This preponderance of evidence drove Kolko, no knee-jerk opponent of government intervention, to conclude, "The dominant fact of American political life at the beginning of [the 20th] century was that big business led the struggle for the federal regulation of the economy." With World War I around the corner, this "dominant fact" was not about to change.

The men who gathered at the Department of War on December 6, 1916, struck a startling contrast. Labor leader Samuel Gompers sat at the table with President Woodrow Wilson and five members of his cabinet.

Joining Gompers and those Democratic politicians were Daniel Willard, president of the Baltimore and Ohio Railroad; Howard Coffin, president of Hudson Motor Corporation; Wall Street financier Bernard Baruch; Julius Rosenwald, president of Sears, Roebuck; and a few others. This extraordinary gathering was the first meeting of the Council of National Defense, formed by Congress and President Wilson as a means for organizing "the whole industrial mechanism . . . in the most effective way."

The businessmen at this 1916 meeting had dreams for the CND that went far beyond America's imminent involvement in the Great War, both in breadth and in duration. "It is our hope," Coffin had written in a letter to the DuPonts days before the meeting, "that we may lay the foundation for that closely knit structure, industrial, civil, and military, which every thinking American has come to realize is vital to the future life of this country, in peace and in commerce, no less than in possible war."

The CND, after beginning the project of government control over industry, handed much of its responsibility to the new War Industries Board (WIB) by July of 1917. That coalition of industry and government leaders increasingly took control of all aspects of the economy. War Industries Board member and historian Grosvenor Clarkson stated that the WIB strived for "concentration of commerce, industry, and all the powers of government." Clarkson exulted that "the War Industries Board extended its antennae into the innermost recesses of industry. . . . Never was there such an approach to omniscience in the business affairs of a continent."

Business's aims in the WIB were much higher than government contracts, and certainly business did not lobby for laissez faire. As Clarkson puts it, "Business willed its own domination, forged its bonds, and policed its own subjection." Business, in effect, shouted to Washington, "Regulate me!" Business called on government to control workers' hours and wages as well as the details of production.

A decade later Herbert Hoover practiced more of the same. Hoover's record was one

> "Before FDR, Hoover got the ball rolling for the New Deal with his Reconstruction Finance Corporation."

not of leaving big business alone but of making government an active member of the team. As commerce secretary in the 1920s, he helped form cartels in many U.S. industries, including coffee and rubber. In the name of conservation, Hoover "worked in collaboration with a growing majority of the oil industry in behalf of restrictions on oil production," according to economic historian Murray Rothbard.

In the White House (where history books portray him as a callous and clueless practitioner of laissez faire), Hoover reacted to the onset of the Great Depression by pressuring big business to lead the way on a wage freeze, preventing the drop in pay that earlier depressions had brought about. Henry Ford, Pierre DuPont, Julius Rosenwald, General Motors president Alfred Sloan, Standard Oil president Walter Teagle, and General Electric president Owen D. Young all embraced the policy of keeping wages high as the economy went south.

Hoover praised their cooperation as an "advance in the whole conception of the relationship of business to public welfare . . . a far cry from the arbitrary and dog-eat-dog attitude of . . . the business world of some thirty or forty years ago."

Before FDR, Hoover got the ball rolling for the New Deal with his Reconstruction Finance Corporation. The RFC extended government loans to banks and railroads. The RFC's chairman was Eugene Meyer, also chairman of the Federal Reserve. Meyer's brother-in-law was George Blumenthal, an officer of J.P. Morgan & Co., which had heavy railroad holdings.

The New Deal and Beyond

After the groundwork laid by the Progressives, Wilson, and Hoover, the alliance of big business and big government continued throughout the 20th century.

- Franklin D. Roosevelt implemented the same sort of government controls on the economy during World War II that Wilson had put in place during World War I, complete with rationing and price controls. Big business profited from the controlled economy in much the same ways that it had under Wilson.
- President Harry Truman wanted his secretary of state's June 5, 1947, speech to Harvard's commencement to be a quiet one about the rebuilding of Europe. He didn't get his wish. The *New York Times* and the *Washington Post* both reported the story on the front pages. Within a day, the whole world knew about the Marshall Plan. But very few knew that a clique of mostly business leaders, called "The President's Committee on Foreign Aid," drafted the idea. Secretary of Commerce W. Averell Harriman, son of railroad magnate E. H. Harriman and former chairman of both Union Pacific Railroad and Illinois Central Railroad, ran the committee. Nine other businessmen joined him. "Throughout, business members—particularly Harriman—set the agenda and the tone for the group's work," historian Kim McQuaid writes. "Without the corporate politicians, Truman's effort would have failed. Men like [cotton baron Will] Clayton and Harriman arrayed foreign aid in procapitalist, anticommunist attire."
- On Sunday night, August 15, 1971, millions of Americans watched President Richard Nixon lay out his New Economic Policy. Nixon had a reputation as a staunch

> "When business plays by the crooked rules of politics, average citizens get ripped off."

conservative, but his New Economic Policy (a phrase borrowed, bizarrely, from Vladimir Lenin) showed Nixon to be a changed man. The federal government would prohibit any increase in wages, prices, or rents for 90 days. After that a "wage and price council" would dictate to businesses when and how much they could increase wages, salaries, and prices. The next day W. P. Gullander, president of the National Association of Manufacturers, declared that "the bold move taken by the President to strengthen the American economy deserves the support and cooperation of all groups." That reaction was typical among big businesspeople. The *New York Times* reported on August 17, 1971, "Business leaders applauded yesterday, with varying degrees of enthusiasm, the sweeping proposals announced by President Nixon Sunday night."

■ George W. Bush, in the name of "compassionate conservatism," has handed big business big favors in the form of a prescription drug benefit from Medicare, an energy bill full of brand new special tax credits and subsidies to energy companies, and a record loan guarantee to facilitate business with known nuclear proliferators in China. A report by the directors of the Health Reform Program at Boston University's School of Public Health found, "An estimated 61.1 percent of the Medicare dollars that will be spent to buy more prescriptions will remain in the hands of drug makers as added profits. This windfall means an estimated $139 billion in increased profits over eight years for the world's most profitable industry."

"The greatest trick the devil ever pulled," said Kaiser Soze in the film *The Usual Suspects,* "was convincing the world he didn't exist." In a similar way, big business and big government prosper from the perception that they are rivals instead of partners (in plunder). The history of big business is one of cooperation with big government. Most noteworthy expansions of government power are to the liking of, and at the request of, big business.

If this sounds like an attack on big business, it is not intended to be. It is an attack on certain *practices* of big business. When business plays by the crooked rules of politics, average citizens get ripped off. The blame lies with those who wrote the rules. In the parlance of hip-hop, "don't hate the player, hate the game."

CATO CALENDAR

5th ANNUAL CONSTITUTION DAY CONFERENCE
Washington • Cato Institute • September 14, 2006
Speakers include Judge Danny J. Boggs, Walter Dellinger, and Randy E. Barnett.

CATO CLUB 200 RETREAT
White Sulphur Springs, WV • The Greenbrier
September 28 – October 1, 2006
Speakers include Tucker Carlson.

Federal Reserve Policy in the Face of Crises
24th ANNUAL MONETARY CONFERENCE
Washington • Cato Institute • November 16, 2006
Speakers include Randall Kroszner, Robert J. Barro, Anna Schwartz, Kristin Forbes, and William Poole.

19th ANNUAL BENEFACTOR SUMMIT
Naples, Florida • LaPlaya Beach & Golf Resort
February 21 – 25, 2007