What is Business in America?

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ABSTRACT. This paper, presented at the Conference on Value Issues in Business at Millsaps College, is divided into three parts. The first sketches the logic of the evolution of U.S. business and suggests reasons for its remarkable success. The second assesses the power of U.S. business in modern society, both from an economic and political perspective. The third attempts to formulate the underlying philosophy of U.S. business using ideals such as 'the work ethic', 'entrepreneurism', 'democracy', and 'equality'. Some of these ideals, the paper suggests, are irreconcilable.

The question, What is Business in America? is like the question What is Christianity? The answer says as much about the speaker as the subject. Anyone brave enough to answer the former question, in a period characterized by Supply Side economics and the new Laffer Curve, is well-advised to devote sufficient attention to America's popular business self-image. That is, he is well-advised to speak convincingly of America's Yankee ingenuity, its army of bootstrapping entrepreneurs, and above all its successful strategy of ensuring economic success by keeping the government off people's backs. Unfortunately I have never been disposed to take good advice. If I neglect these well-known aspects of our business culture, it is not because I am an enemy of business, for I consider myself a friend; it is because I believe that national self-congratulation, however patriotic, can sometimes intoxicate national good sense.

My answer to the question, "What is Business in America?" has three parts. The first presents the logic of the evolution of U.S. Business. Its aim is to provide a *historical foundation*, however modest, for understanding business today. The second part assesses the *power* of business in society, both from an economic and political perspective; and the third struggles to articulate the *philosophy* of U.S. business.

These three aspects of business, the logic of its evolution, its social power, and its philosophy, together provide answers to the three main questions one should ask before beginning an ethical analysis of business: namely, Where does it come from? What can it do? and How is it justified? The thesis of my remarks will be that the evolution of U.S. business reveals a painful conflict between the capacity of business to generate an increasing supply of goods and services, and its ability to resolve the human problems it encounters.

1. Evolution of U.S. business

How can one explain the enormous step from the colonists' cottage industry to the General Motors and Exxons of today? First, it was a step in character with America's self-image. From the beginning, a large part of the business of America was business. "Our ancestors", said a Massachusetts fisherman, "came not here for religion. Their main end was to catch fish."[1] Nevertheless, the spectacular rise of U.S. business, involving ever-greater tonnages of steel and cement, and ever-more efficient tools and systems, cannot be chalked up entirely to mercantile enthusiasm. We must remember that the U.S. never was, in any sense, an 'underdeveloped' country. It began riding the crest of the wave of

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European culture, and this explains why in 1776, at the beginning of the U.S. independence and only one century after full-scale settlement in America, the flour mills of the Chesapeake Bay area housed the best milling equipment in the world, why the Philadelphia distilleries were able to export nearly a quarter million barrels of rum each year, and most remarkable, why the thirteen colonies together produced more pig and bar iron than England and Wales combined. The colonies in 1776 accounted for one-seventh of the world's output of iron.[2] America did not, as Zambia or the Philippines, begin from scratch.

The U.S. economic success is spectacular. The U.S. is the world's foremost industrial power, dwarfing the technological resources and sheer industrial muscle of every other nation by nearly a power of two. What further explains this incredible success? Five factors, I believe, predominate.

The first is America's debt to immigration. The never-ending injection into the U.S. system of cheap, hard-working labor, with the pervasive expectation that one day these workers would rise to become employers of their own, invigorated the economy without at the same time fostering class bitterness. Immigrants were often used to replace higher paid local labor – to the advantage of the American consumer. Despite the success in the early nineteenth century of the 'Lowell' system, in which young farm girls were recruited by the thousands to work in U.S. cotton mills, by 1850 the girls had been almost replaced by still lower paid Irish immigrants. The tide of immigration was unstoppable. Between 1820 and 1840 it rose from 10,000 to 90,000 a year; by 1850 it had leaped to 300,000; and by 1854 to 500,000.[3] The new arrivals brought old skills from their home countries, they accepted lower salaries, and they worked under conditions no one else would tolerate. By 1870 about one-third of all workers in factories were foreign born. To cite a single instance, by 1907 more than 80% of the men who labored in the Carnegie steel factories of Allegheny County were eastern Europeans.[4]

A second factor in America's success is its passion for technology. Even in Colonial times America showed signs of its technological inventiveness by designing an axe which was better balanced and easier to handle than the rival German and English axes. The self-reliance born of independent farming, coupled with a new-world penchant for change and improvement, brought America a reputation for ingenuity which persists today. Undoubtedly, the outstanding achievement of American industrial creativity was developing techniques of mass production. One element essential to such production is the interchangeable part. It made possible, for the first time, assembly line operations in which the advantages of specialization and the division of labor could reach final fruition. Eli Whitney, nearly broke because he had been unable to patent the cotton gin, successfully introduced the first interchangeable parts system. He persuaded the government to allow him to manufacture for the army muskets which, in contrast to those in operation, would contain parts exactly like those in other muskets. When he showed ten muskets to President Adams, and offered to disassemble them and then reassemble them with exchanged parts, the President was dumbfounded. The pattern for the modern Ford auto, the Atlas rocket, and the MacDonald's hamburger had been discovered.

America's economic success also owes itself to a special feature of the capitalistic economic system: namely, its capacity automatically to funnel labor into capital improvements rather than consumption. If people could vote on society's investment decisions, they might prefer short-term gains in autos, clothes, and soft-drinks, to capital improvements in machinery and technology. A capitalistic system does not afford them the chance to make this mistake. The entrepreneur knows that long-range riches require capital improvements, and since his own needs for autos and clothing typically only consume a fraction of his income, he is willing to channel additional resources into drill presses, technological research, and new factories. In this way, a capitalistic system automatically reserves for itself a self-generating reservoir of capital resources.

Two final reasons for America's success are no less real for being frequently omitted in accounts by business writers. These are (1) America's vast storehouses of natural resources, and (2) the cooperation between U.S. Business and the U.S. Government. The first is obvious to anyone who stops to reflect on the abundance in our country of farmland, timber, coal, oil, and iron ore. The second, though less obvious, is equally important. The U.S. government has been a principal factor in U.S. business success, both through its positive action and its general policy of studied inaction. When business has required independence, government typically has backed off, and when it needed financial support, government has conveniently forgotten its ordinary slogans of laissez faire. The U.S. Government has never, as the seventeenth-century government of King Louis XIV, suffocated commerce beneath the weight of bureaucracy and regulations. Business people complain today as always of government interference, but one must remember that the U.S. Government perhaps more than any other has supported the ideals of free market philosophy. The seeds of this philosophy took root early. It is hard to resist quoting Adam Smith in the *Wealth of Nations*:

> Great Britain imposed an absolute prohibition upon the erection of steel furnaces and steelmills in any of her American plantations... . [T]o prohibit a great people ...from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind.[5]

Only ideological blindness prevents one from also recognizing that the U.S. Government has helped business frequently with direct support. We remember the story of Eli Whitney and his muskets of interchangeable parts. It was not private capital but government aid which provided the resources for this venture. We should also remember that development in the early eighteenth century of America's renowned canal system, which for the first time gave commerce efficient, low-cost transportation, was largely the work of government. Before the opening of the Erie Canal, the cost of bringing corn or oats to New York from the western regions was over six times the cost of the grain itself. After the opening, freight rates fell by an astounding ninety percent. The cost and risk of such projects were too much for private investors to bear. Other government contributions to U.S. business include: land grants to the infant railroads, the development of interstate highway systems and modern airports, and the implementation of investment-oriented tax policies.

The evolution of American business, fueled by the five factors we have discussed, underwent three major moments of transformation. The first was its grudging acceptance and eventual integration of the labor union movement; the second was its encounter with the Depression with its resulting social reorganization; and the third was its reconstitution from a system of small independent businesses to an evermore integrated system of corporate production, centered around a matrix of giant, national and multinational corporations.

Although it is well-known that even today labor unions represent less than twenty-five percent of the U.S. working population, their effect is greater than the percentage suggests. Marxists themselves are known to explain their mentor's obviously inaccurate prediction that the Western industrialized nations would soon succumb to communism, by pointing to the surprising success of unionism. Unionism put more dollars in the factory workers' pocket; it provided him with a power base to lobby for his interests in Washington; and most important it relieved the explosive hostility he felt toward his bosses by giving him a means of waging economic war in the workplace. Even non-union shops must forever pay the price of unionism. They must institute higher wages, more humane managerial systems, and safer shops. Mainstream America, including the bulk of U.S. business executives, now accepts the idea that unions have a legitimate role to play in the economy; a fact which explains the current public sympathy with the independent Polish labor movement, 'Solidarity'. We have come a long way since the day N.F. Thompson, secretary of the Southern Industrial Convention, wrote:

> Labor organizers are today the greatest menace to

> this Government that exists.... [A] law should be passed that would make it justifiable homicide for any killing that occurred in defense of any lawful occupation.[6]

If labor unions permanently altered the worker's relation to private business, then the Great Depression did the same for the relation between private business and government. Through the Depression, government became not only business's financier and regulator, but a partial guarantor of economic security. Prior to the Depression government had intruded in business affairs primarily to prevent corruption and monopolistic market control. During the Depression, the government moved towards a position of permanent partnership with business, in which national economic welfare is currently the joint product of capitalistic initiative and government policy. Even Reagan's optimism will not fundamentally alter this fact.

Whether Keynes' *General Theory* with its criticism of Say's Law accurately pinpointed the flaws of a free market can be disputed. What cannot be disputed are the permanent effects of two generations or more of Keynsian-spirited policies on the character of U.S. economy. Investment spending between 1929 and 1933 shrank by 88 percent, and the resulting decision to inject frequent doses of government spending into the economy has had dramatic effects. Today, after five decades of reflection, government spending amounts to about twenty-five percent of the Gross National Product. In 1929 it amounted to less than two percent.[7]

Most of us are now painfully aware that the price of living in the present economic system is not fear of depression, but gradual and emaciating inflation. Inflation appears to be a necessary byproduct of accepting certain assumptions of our post-depression economy. We accept the assumption that government has a legitimate role to play in maintaining economic growth and stability. We also accept the assumption that the poor, the handicapped, and the unemployed have a right to receive minimal levels of government assistance. The net effect is to authorize a substantial role for government in society which ironically fuels inflation by fueling economic confidence. The U.S. government since WW II has not only created inflation by spending more than it has taken in, but even if revenues and expenditures were balanced, the gradual inflation which has characterized our postwar economy would continue. Rather, by serving as guarantor of economic stability, the government has broken the cycle of boom and bust, and of resulting inflation and deflation, by allowing business to confidently forecast policies of expansion even in times of recession. Prices rise today, even in times of recession.

Just as the union movement reconstituted the labor-management relationship, and the Depression reconstituted the business-government relationship, so the near explosion in the size and number of corporations in the last one hundred years reconstituted the relationship between business and the consumer. "A Corporation", an English jurist once said, "has no soul to damn or pants to kick – and by God", he concluded, "it ought to have both!"[8] No longer is the consumer's relationship between himself and another individual person. In 1810, he could yell at the man who sold him a bad horse. In 1977, having bought a new "Chevmobile" from General Motors (the notorious Oldsmobile with a Chevrolet engine), he could yell at a G.M. clerk until he was blue in the face with remarkably little effect. The clerk is just "following the rules". The customer, in turn, must deal with a "persona ficta".

Economy of scale, both in technological and managerial realms, dictates that large organizations often will produce goods cheaper, faster, and better than smaller firms. This explains in part why the big corporations are becoming bigger, and why the same share of manufacturing assets held by the largest 1000 corporations in 1946 is now held by the largest 150 corporations. We are reminded of the irony in the fact that the father of modern economics, Adam Smith, so completely misjudged the corporation. He believed that, short of receiving monopoly powers, the corporation held little promise for the future – except, perhaps, where all operations could be reduced to rote. He gave as examples the banking and insurance industries.[9]

Giant corporations are formidable social institutions. American Telephone and Telegraph, Inc., and General Motors, Inc., each have nearly one million employees. No government agency besides the Department of Defense employs more people. General Electric, Exxon, Ford Motor Company, General Motors, and A.T. & T. each gross more revenue than the states of California or New York, or the City of New York. By revenue, sixteen of the twenty largest organizations in the U.S., including state and city governments, are corporations. Corporate power extends beyond U.S. borders. More than sixty of the largest U.S. corporations produce in six or more countries, and more than thirty percent of their workers live in foreign countries.[10]

2. Social power

That business has social and political power is undeniable. What can be disputed is the breadth and extent of that power. Let us glance at two areas in which the power of business may be said to be considerable: namely, conditions of employment and political events.

Government regulations and unionism have lessened the sovereignty of the employer with respect to his employees. The days are gone in which we could see a sign in a factory like the one in an 1878 New York carriage shop, which read:

> It is expected that each employee shall participate liberally in the activities of the church and contribute liberally to the Lord's work. All employees are expected to be in bed by 10: 00 P.M. Except: Each male employee may be given one evening a week for courting purposes.[11]

Yet it remains a dictum of common law that employers "may dismiss their employees at will... for good cause, for no cause, or even for cause morally wrong, without thereby being guilty of legal wrong". This means that, except in a few select instances covered by law, modern corporations may fire employees who do or say anything objectionable. 'Objectionable' here takes its literal meaning: that is, even if an employee does something permissible, he may still be fired so long as management is offended. In this way, the power of management is decisive. After two engineers finally blew the whistle on a faulty airplane brake in the infamous B. F. Goodrich Brake scandal, they were eased out of the company. Those who planned the cover-up, on the other hand, despite their actions having nearly killed a test pilot, were rewarded with higher salaries and positions.

Corporations, unlike governments, are not constrained by constitutional principles which submit power to fundamental rules, nor is their existence presumed to rest upon their capacity to benefit those whom they affect. This relative freedom, coupled with decisive power over conditions of employment, has convinced many that modern corporations must develop internal mechanisms of responsibility.

In the case of employee treatment, this growing conviction has taken two distinct forms: the first is to encourage greater legal intervention into corporate affairs, the second to encourage not legal intervention, but internal and voluntary reform. The former is exhibited in the case of George Geary, a salesman for a large steel corporation, who in 1977 complained that the tubular casing he sold was dangerous and of poor quality. After speaking to his immediate superior, he went to the Vice President in charge of sales. He was fired for his trouble. Geary took his complaint to the Supreme Court of Pennsylvania which said he had no right of action for wrongful discharge. Again, the power of employers to discharge even for reason morally wrong was upheld. But the remarkable aspect of the case was not the verdict, which was predictable, but the balance of votes. The decision was 4 – 3. Only ten years before, it would have been 7 – 0.[12]

The second tack taken by those wishing to limit corporate power over employees may be placed under the heading of 'corporate constitutionalism'. People both inside and outside corporations are recommending, and often voluntarily implementing, internal mechanisms to guide corporate power over employees. Consider some of the changes with which corporations are already experimenting.

(1) Many corporations have adopted employee 'bills of rights' which protect employees from arbitrary discharge and protect rights to privacy, free speech, and due process. (One such formulation, for example, says that managers are not allowed to go on unauthorized 'fishing expeditions' through the desks of absent employees.)

(2) The H.P. Hood Co. in Boston maintains a policy in which the president appoints a panel of five nonmanagement employees, chosen at random, to gather facts in grievance cases. The panel then advises the President.

(3) Polaroid has a grievance committee elected by employees.

(4) IBM has for years maintained an 'open door' policy, and in a similar fashion, New England Telephone has a 'hot line' where employees can, anonymously if they wish, ask corporate officials about matters of concern.

(5) Donnelly Mirror Corporation has employee work teams confronting and advising about major issues, such as cost reduction, capital investment, and employee compensation.[13]

Corporations exercise considerable power, not only over their employees, but over social and political events. One needs to distinguish between a corporations's *formal* power, which derives from its rights as specified by charter, and its *practical* power, which derives from its relation to other social institutions. Legally, a corporation has only the power expressed in its charter and in the legal statutes in the jurisdiction it inhabits. Practically, however, a corporation gains power through its position in the corporate infrastructure. Corporations share interests with thousands of other business organizations: the *Encyclopedia of Organizations in the United States* devotes over 250 pages to national business organizations, while giving only 17 to labor organizations, 60 to public affairs, and 71 to scientific and technical societies. This huge matrix of business associations, although largely uncoordinated, exerts power sympathetic to corporate interests.[14]

Corporations are no longer permitted to contribute directly to political campaigns, but they can contribute indirectly through Political Action Committees (PACs). The PACs deduct money regularly from the paychecks of corporate executives, and they support candidates who introduce legislation favorable to business. In the 1980 presidential campaign, for the first time, spending by the pro-corporation PACs topped spending by unions.

The corporation, as the government, has a citizenry from which it commands loyalty. The chief executive, although directed to 'pursue profits', holds significant discretionary power and will frequently spend corporate funds derived from corporate sales to promote interests in line with his or the company's partisan objectives. Such expenditures are tolerated and indeed usually respected by the executive's peers. Not only executives, but suppliers, shareholders, and employees, are loyal to corporate interests. Because of this, corporations are second only to government in serving as society's prominent locus of ongoing control.

Multinationals are special cases, with power both at home and abroad. The making of a loan through an organization such as the World Bank can depend upon a country's record of treatment of multinationals. For example, the United States is said to have vetoed an IADB housing loan to Peru in 1969 because of Peru's treatment of the International Petroleum Company. Although direct interference with Third World governments by multinationals is becoming rarer, such indirect leverage continues.

Two opposing views of the efforts of multinationals are in circulation. The first condemns multinationals as instruments of exploitation, the second endorses them as engines of international cooperation. Ronald Müller, co-author of the influential book, *Global Reach*, condemns multinationals for clever tax schemes and oligopolistic power.[15] The goal for a multinational is total profit maximization, but this implies tax 'minimization'. Consequently, companies divert profits from high to low tax countries, and deny countries their fair share of tax revenues. Still worse, he says, the very size and complexity of multinationals spawn oligopolies, resulting in decreased competition and inflated prices.

The opposing view cites the inherent tendency in multinationals towards international cooperation. Political programs have disheartening records of success in curing human misery; perhaps economic cooperation bred by the practical demands of multinationals can do better. Third World countries need information and skills; developed countries need markets and materials. The product sold by a multinational is sometimes a symbol of international cooperation: consider the tractor made by Canada's Massey–Ferguson. It is assembled in the United States, sold in Canada, and constructed by using British-made engines, French transmissions, and Mexican axles.

3. Philosophy

The third and final answer to the question, 'what is business'', deals with philosophy. How business is perceived, by its practitioners and observers, is as much a part of business as its economic structure.

I will mention a few of the elements of the common conception of what might be called the 'ideals of business'. A few of these ideals, as we shall see, are in conflict.

Upward mobility, the work ethic, and individualism, are cherished concepts for Americans, rooted deeply in the collective consciousness. Upward mobility has been a reality for generations of immigrant Americans. The work ethic, promising religious and economic rewards for sweat and diligence, has allowed Americans to invest their work world with special meaning. The ideal of individualism, reflected in countless novels and movies, has stressed the way in which the creative efforts of a single human consciousness can contribute to human welfare. Perhaps the most articulate defender of these ideals was Joseph Schumpeter, himself not a native American, who wrote in his preface to the *Theory of Economic Development* that there is "a source of energy" within the economic system upon which its progress depends. That source is the entrepreneur. He is the motive force of capitalism and he is the reason why capitalistic society never spirals into suffocating regularity, but always advances. The language used by Schumpeter to describe the entrepreneur is sometimes embarassingly heroic: He has a "will to found a private kingdom", "to conquer": he has "the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself".[16]

Nevertheless, Americans have always stopped short of an 'anything goes' business philosophy. Beneath the talk of pragmatism and hard work always has lived a distrust of purely mercantile motives. When Americans hear that in the nineteenth century Rockefeller demanded that any railroad carrying Standard Oil cargo pay back to Standard Oil one-half of the regular fares paid by all Standard Oil's competitors, they become indignant. So engrained in American folklore have the robber barons become that William Allen White once suggested that they cultivated beards for no other reason than to hide their naked shame.[17]

The ideals of upward mobility and rugged individualism lie behind America's deep distaste for communal philosophies, aristocratic class divisions, and totalitarian regimes. Indeed, America's business ideals are found in her larger construct of political and social ideals, and would never attract the philosophical attention they do, except for the fact that they sometimes conflict with each other.

The Horatio Alger ideal of upward mobility has long been criticized for failing to match the facts. A survey of 303 successful business leaders from the 1870s reveals that one-half did not work before they were age nineteen, that of the native born Americans only three percent had foreign fathers, and that ninety percent were raised in either middle class or upper class families.[18] But failure to match facts has seldom troubled mythic convictions. More serious is that this conviction collides with two other ideals, namely respect for the common man, and the belief in the propriety of inheritance. In a nutshell, if we believe that all those who are good become rich, how can we continue to affirm the goodness of the middle class man? And if we believe that hard work should be the key to riches, how can we preserve a system of inheritance which unerringly bestows wealth not on the hard-working, but on the well-born?

Similar problems arise for the ideal of rugged individualism. As De Toqueville noted years ago, individualism and the spirit of independent conviction collide head-on with the guiding principle of democracy: that the individual should bend his will to the majority's. Political reality in a democracy makes matters worse, since in order to construct a winning political ticket, people must sacrifice individual conviction to the party line. This inherent conflict between a key element of democracy and a business ideal explains why often the critics of business adopt the language of 'democracy': witness the current program advocated by Jane Fonda and others known as 'industrial democracy.'

Even the ideal of equality, as American as apple pie, is difficult to conform to ideals of entrepreneurship. Schumpeter's heroic entrepreneur who gloriously carries society on the back of his own ambition, is no champion of equality. It is no surprise to read Schumpeter's own memorable comment on equality: "Equality", he wrote, "is the ideal of the subnormal, but even subnormals do not desire equality, but only that there be nobody better".[19] Correct or not, such a mocking tone towards equality is distinctly un-American.

And so we are brought to the crux of our discussion. Having asked the question, "What is Business in America?" we have sketched a rudimentary answer. American business is an evolutionary system influenced by a series of historical forces, and owes its success to such varied factors as inventiveness, good government, and good luck. It possesses enormous power – over employees, political processes, and other countries – but it is a power which, to date, is backed by no fully coherent philosophy. American business lacks a guiding conception of its own direction, and this is its pressing need. If the question, "What is Business in America?" has an answer, it is one which points directly to a second question, namely, "Where should business in America be going?"

Notes

1 Quoted in Samuel Eliot Morison, *Maritime History of Massachusetts* (Boston, 1961), p. 13.

2 Robert Heilbroner, *The Economic Transformation of America* (Harcourt, Brace, Jovanovich, New York, 1977), p. 11.

3 Heilbroner, *Economic Transformation*, p. 40.

4 Heilbroner, *Economic Transformation*, 129.

5 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776, rpt.; Modern Library, New York, 1937), pp. 548–549.

6 John A. Garraty, *The New Commonwealth* (1968), pp. 144–145.

7 Heilbroner, *Economic Transformation*, p. 187.

8 Remark from an anonymous English jurist, quoted in Christopher Stone, *Where the Law Ends* (Harper & Row, New York, 1975), p. 1.

9 Smith, *Wealth of Nations*, pp. 320–380.

10 Charles E. Lindbloom, *Politics and Markets* (Basic Books, New York, 1977), p. 95.

11 Quoted in David Ewing, *Freedom Inside the Organization* (McGraw-Hill, New York, 1977), p. 120.

12 David Ewing, 'Sunlight in the Salt Mines', *Harvard Law School Bulletin* (Fall, 1977), p. 18.

13 Ewing, *Freedom Inside the Organization*, pp. 161–181.

14 Lindbloom, *Politics and Markets*, p. 197.

15 See Ronald E. Muller and Richard J. Barnet, *Global Reach* (Simon and Schuster, New York, 1974).

16 Quoted in *Schumpeter*, ed. by S. Harris (Harvard University Press, Cambridge, Mass., 1951), p. 18.

17 John Chamberlain, *The Enterprising Americans: A Business History of the United States* (Harper & Row, New York, 1961), p. 141.

18 Heilbroner, *Economic Transformation*, p. 83.

19 Quoted in *Schumpeter*, ed. by Harris, p. 18.