POLITICS AND MARKETS

The World's Political-Economic Systems

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To
Rose Winther Lindblom

With the breath, smiles, tears, of all my life
—Browning

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The Privileged Position of Business

(cf Hayek) ONE might have expected that central planning of production, whatever its merits, would have been attempted under democratic pressure in at least a few polyarchies. The universal hostility to it, however, opens our eyes to the possibility that genuinely popular control in the polyarchies is even weaker than described in earlier chapters. We shall examine that possibility not only to explain the hostility of polyarchy to central planning and its universal dependence on markets but because we have now raised a major question about polyarchy: Is polyarchy not very democratic at all? Are the polyarchies controlled by business and property?

We begin the analysis by exploring in this chapter the political role of businessmen in all private enterprise market-oriented societies. This role is different from what it is usually perceived to be. It is not, we shall see, merely an interest-group role.

Key

The Business Executive as Public Official in the Market System

If we can imagine a politico-economic system without money and markets, decisions on the distribution of income would obviously be political or governmental decisions. Lacking markets and wages, income shares would have to be administered by some kind of public authority, perhaps through rationing. Decisions on what is to be produced in the system would also have to be made by political or governmental authority. So also decisions on the allocation of resources to different lines of production, on the allocation of the labor force to different occupations and workplaces, on plant location, the technologies to be used in production, the quality of goods and services, innovation of new products—in short, on every major aspect of production and distribution. All these decisions would be recognized as public policy decisions.

In all societies, these matters have to be decided. They are of momentous consequences for the welfare of any society. But in a private enterprise market system, they are in larger part decided not by government officials but by businessmen. The delegation of these decisions to the businessman does not diminish their importance or, considering their consequences, their public aspect. In communist and socialist systems, heads of enterprises are government officials; it is taken for granted that their functions are governmental. In private enterprise systems, whether polyarchal or not, their functions are no less of public consequence. On all these matters, moreover, not only do business executives make consequential decisions; but, as we have seen in Chapter 11, corporate executives exercise broad discretion in making them.

For example, for a twelve-year period, while European steel companies held outputs and employment relatively stable by permitting prices of steel to fluctuate, American steel companies held prices steady with the result that output and employment fluctuated. It was a discretionary choice full of consequences for jobs, economic growth, prices, and the balance of payments.[1] But it was steel industry executives, not governmental officials, who made the decision.

We hardly need, however, further illustration of the public consequences of discretionary corporate decisions in the market. The major decisions that rest in corporate hands have been outlined in Chapter 11. Corporate executives in all private enterprise systems, polyarchic or not, decide a nation's industrial technology, the pattern of work organization, location of industry, market structure, resource allocation, and, of course, executive compensation and status. They also are the immediate or proximate and discretionary decision makers, though subject to significant consumer control, on what is to be produced and in what quantities.

In short, in any private enterprise system, a large category of major decisions is turned over to businessmen, both small and larger. They are taken off the agenda of government. Businessmen thus become a kind of public official and exercise what, on a broad view of their role, are public functions. The significant logical consequence of this for polyarchy is that a broad area of public decision making is removed from polyarchal control. Polyarchal decision making may of course ratify such an arrangement or amend it through governmental regulation of business decision making. In all real-world polyarchies, a substantial category of decisions is removed from polyarchal control.

The Businessman as Public Official in Government and Politics

What we have just said, however, only begins to describe the public role of businessmen in all private enterprise market-oriented societies. As a result of the "public" responsibilities of businessmen in the market, a great deal more is implied. Businessmen generally and corporate executives in particular take on a privileged role in government that is, it seems reasonable to say, unmatched by any leadership group other than government officials themselves.* Let us see, step by step, how this comes about. Every step in the analysis will refer to a familiar aspect of these systems, the implications of which, taken together, have been overlooked by most of us.

Because public functions in the market system rest in the hands of businessmen, it follows that jobs, prices, production, growth, the standard of living, and the economic security of everyone all rest in their hands. Consequently, government officials cannot be indifferent to how well business performs its functions. Depression, inflation, or other economic

* In contemporary thought, especially democratic thought, "privilege" often connotes something improper. That is not my intention in using the term. Webster says privilege is "a right or immunity granted as a peculiar benefit, advantage, or favor; *esp.*: one attached specif. to a position or an office," and something that is privileged is "not subject to the usual rules and penalties because of some special circumstance" (*Webster's Seventh New Collegiate Dictionary* [Springfield, Mass.: G. & C. Merriam]).

distress can bring down a government. A major function of government, therefore, is to see to it that businessmen perform their tasks.

Every day about us we see abundant evidence of governmental concern with business performance. In the polyarchies, government responsibility for avoiding inflation and unemployment is a common issue in elections. In all market-oriented systems, a major concern of tax and monetary policy is their effects on business activity. In subsidies and other help to water, rail, highway, and air transport; in patent protection; in fair trade regulation; in tariff policy; in overseas trade promotion through foreign ministries; in subsidized research and development (recently conspicuous, the Concorde in the United Kingdom and France, the aerospace industry in the United States)—in countless ways governments in these systems recognize that businessmen need to be encouraged to perform.

But take particular note of another familiar feature of these systems. Constitutional rules—especially the law of private property—specify that, although governments can forbid certain kinds of activity, they cannot command business to perform. They must induce rather than command.* They must therefore offer benefits to businessmen in order to stimulate the required performance. The examples above are all examples of benefits offered, not of commands issued.

One of the great misconceptions of conventional economic theory is that businessmen are induced to perform their functions by purchases of their goods and services, as though the vast productive tasks performed in market-oriented systems could be motivated solely by exchange relations between buyers and sellers. On so slender a foundation no great productive system can be established. What is required in addition is a set of governmentally provided inducements in the form of market and political benefits. And because market demands themselves do not spontaneously spring up, they too have to be nurtured by government. Governments in market-oriented systems have always been busy with these necessary activities. In the eighteenth century, for example, England established almost a thousand local road improvement authorities. When railroads became feasible, special legislation—more than 600 parliamentary acts between 1844 and 1847—granted attractive benefits to railway companies. In late eighteenth and early nineteenth century England, Parliament passed almost 4,000 enclosure acts, both creating a commercial agriculture to replace subsistence farming and driving a labor force off the land into industrial employment.

* But private property is not the key to the process being described. For any market system, whether private or public enterprise is the rule, enterprises must have autonomy or "rights" to respond to market cues rather than be obliged to obey governmental commands. See chapter 22.

In the United States, Alexander Hamilton's *Report on Manufactures* put government in an active supportive role for business. So also did early federal policy on banks, canals, and roads; governmental profligacy in indulgences to western railroads; the judicial interpretation of anti-monopoly legislation to restrict unions rather than business enterprises; the deployment of Marines to protect American enterprise in Latin America; the use of public utility regulation to protect business earnings; and the diversion of fair trade laws from their ostensible public purposes to the protection of monopolistic privilege.[2]

In the United States, as in all other market systems, the modern corporation could develop only with the assistance of new corporate law in the mid-nineteenth century that limited stockholders' liability and in other ways conferred new authority on organizers of large enterprises. In the United States the courts transformed the Fourteenth Amendment, ostensibly written to safeguard the rights of former slaves, into an instrument for the protection of the corporation in its new role as a legal person.

Even more so than in England and America, continental European governments explicitly accepted a responsibility for the development of private enterprise, Germany most conspicuously. Perhaps learning from Europe, Japan went even further with loans, subsidies, and legal privileges for business enterprise.

What, then, is the list of necessary inducements? They are whatever businessmen need as a condition for performing the tasks that fall to them in a market system: income and wealth, deference, prestige, influence, power, and authority, among others. Every government in these systems accepts a responsibility to do what is necessary to assure profits high enough to maintain as a minimum employment and growth. If businessmen say, as they do, that they need tax offsets to induce investment, governments in all these systems seriously weigh the request, acknowledging that the tax concessions may indeed be necessary. In these systems such concessions are in fact granted. If corporation executives say that the chemical industries need help for research and development, governments will again acknowledge the probability that indeed they do and will commonly provide it. If corporate executives want to consult with government officials, including president or prime minister, they will be accommodated. Given the responsibilities of businessmen in these societies, it would be a foolish chief executive who would deny them consultation. If corporate executives ask, as they frequently do, for veto power over government appointments to regulatory positions, it will again be acknowledged that such a concession may be necessary to induce business performance. All this is familiar. And we shall see below that governments sometimes offer to share their formal authority with corporate officials as a benefit offered to induce business performance.

In the eyes of government officials, therefore, businessmen do not appear simply as the representatives of a special interest, as representatives of interest groups do. They appear as functionaries performing functions that government officials regard as indispensable. When a government official asks himself whether business needs a tax reduction, he knows he is asking a question about the welfare of the whole society and not simply about a favor to a segment of the population, which is what is typically at stake when he asks himself whether he should respond to an interest group.

Any government official who understands the requirements of his position and the responsibilities that market-oriented systems throw on businessmen will therefore grant them a privileged position. He does not have to be bribed, duped, or pressured to do so. Nor does he have to be an uncritical admirer of businessmen to do so. He simply understands, as is plain to see, that public affairs in market-oriented systems are in the hands of two groups of leaders, government and business, who must collaborate and that to make the system work government leadership must often defer to business leadership. Collaboration and deference between the two are at the heart of politics in such systems. Businessmen cannot be left knocking at the doors of the political systems, they must be invited in.

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A leader of a West German business association comments on the world of politics, "This is not an alien world to the entrepreneur; it is his own. At stake for him is the leadership of the state."[3] Drawing on his experience in Du Pont, an American writes, "the strength of the position of business and the weakness of the position of government is that government needs a strong economy just as much as business does, and the people need it and demand it even more."[4] The duality of leadership is reminiscent of the medieval dualism between church and state, and the relations between business and government are no less intricate than in the medieval duality.

Thus politics in market-oriented systems takes a peculiar turn, one largely ignored in conventional political science. To understand the peculiar character of politics in market-oriented systems requires, however, no conspiracy theory of politics, no theory of common social origins uniting government and business officials, no crude allegation of a power elite established by clandestine forces. Business simply needs inducements, hence a privileged position in government and politics, if it is to do its job.

Other Privileged Positions?

How might the thesis that businessmen occupy a privileged position—that they constitute a second set of major leaders in government and politics—be challenged? It can hardly be denied that business performance is required in market-oriented systems. Nor that it has to be induced rather than commanded. Nor that, consequently, government officials have to be solicitous in finding and offering appropriate inducements. Perhaps, however, other groups enjoy similar privilege for similar reason? It seems reasonable to suggest that labor leaders, who might be thought the most likely occupants of a similar privileged position, do not occupy one. They and their unions do not provide, we have already noted, essential services. Their function is instead to advance the segmental interests of workers. But workers themselves provide essential services, it might be replied. If they do not work, the whole productive system halts.

The plain fact, however, is that workers do work—without special inducement from government. Their livelihoods depend on it. Their position is quite different from that of the businessman, who has a dimension of choice. He will not risk capital, reputation, or the solvency of an enterprise in order to undertake an entrepreneurial venture unless the conditions are favorable. The test of the difference is an obvious one. All over the world men work at ordinary jobs because they have no choice but to do so. But in many parts of the world the conditions that call forth entrepreneurial energy and venturesomeness are still lacking, and the energy and venturesomeness are therefore not forthcoming. The particular roles that businessmen are required to play in market-oriented systems they play well only when sufficiently indulged.

But a sufficient degree of union organization and ambition, it would seem, could at least in some circumstances put workers or their union leaders in a privileged position in government. It could happen if unions could successfully stop production, not simply in one firm or industry, but broadly as in a general strike. Ordinarily, however, a general strike—except as a demonstration for a few days—is impossible because it provokes the government, even in the polyarchies, to break the strike, as in the aborted British general strike of 1926. In short, the rules of market-oriented systems, while granting a privileged position to business, so far appear to prohibit the organizational moves that would win a comparable position for labor. Hence a privileged position for union leaders and their unions is approximated only in special circumstances. A noteworthy example is the use of the strike threat among municipal employees in New York City. Their privileged position in New York City government seems unquestionable.

From time to time other groups achieve a limited privileged position. Physicians in the United States enjoy privileges in policy making on health because government officials fear that their performance will be adversely affected if they do not. In many of the developing nations, the internal

security forces hold a privileged position because higher government officials know that if unsatisfied these forces can turn on their ostensible masters. Farmers are another case. Many of them are businessmen and share in the privileged position of business. But many very small farm operators have no more choice about performing than do ordinary workers.

Changing Privileges

The level and character of privilege that businessmen require as a condition of their satisfactory performance vary from time to time and place to place. All about us is conspicuous evidence that some older privileges have been withdrawn, even to the point of nationalizing some firms and industries. In many of the market-oriented systems, business enterprise is more heavily taxed than before. It is also subjected to increasing regulation on some scores—for example, regulation of industrial relations, monopoly, and now environmental pollution. Clearly businessmen have commonly demanded of government more indulgences than are actually necessary to motivate their required performances. As some of these indulgences have been taken away, their performance has not faltered.[5]

On the other hand, the removal of some privileges appears to require the institution of offsetting new ones—for example, tax credits. Forty percent of net investments in manufacturing equipment in the United States in 1963 was estimated to be attributable to the investment tax credit of 1962.[6] In the market-oriented systems, governments underwrite much of the cost of research and development for business. They also provide security to business enterprises through a variety of protections for monopoly, like fair trade legislation. In some industries, government shares or bears the risk of new plant construction by renting facilities to firms that do not want to construct their own. Half of the plant facilities of U.S. defense plants are provided by government. Governments also bail out failing enterprises with loans. And in much of recent capital planning in Western Europe, businessmen are brought into a new intimacy of consultation with government officials.

Many of the new privileges, which offset some taken away, are not widely recognized to be such. Urban renewal, for example, comes to the aid of retailers, banks, theaters, public utilities, brokers, and builders. Highway development promotes a long list of industries including cement, automobiles, construction, petroleum, construction equipment, and trucking.[7] But the ostensible purpose of urban renewal and highway development is not aid to business.

Conflicts among Businessmen

On some demands—those pertaining to enterprise autonomy, private property, limited business taxation, and tax incentives, for example—business volitions are relatively homogeneous. On other demands, some businessmen want one kind of benefit; others want another. That businessmen disagree on such demands is not usually a barrier to their occupying a privileged position, for to give one kind of business a benefit is not necessarily to deprive another. On some issues, of course, privilege granted to one segment of the business community represents the withdrawal of a privilege from another. Large meat packers, for example, may press for inspection laws that, by raising the costs of small packers, give the large ones a competitive advantage. But it is possible for government officials to find an offsetting benefit to the small packers to compensate for the injury, if officials understand that redress is necessary.

Mutual Adjustment between the Two Groups

So far we have stressed controls by businessmen over government. But of course controls go in both directions. In briefest outline the reciprocal controls look like the following:

Government exercises broad authority over business activities.

But the exercise of that authority is curbed and shaped by the concern of government officials for its possible adverse effects of business, since adverse effects can cause unemployment and other consequences that government officials are unwilling to accept.

In other areas of public policy, the authority of government is again curbed and shaped by concern for possible adverse effects on business.

Hence even the unspoken possibility of adversity for business operates as an all-pervasive constraint on government authority.

Mindful of government concern for business performance, businessmen, especially corporate executives, actively voice and negotiate demands on government, with both implicit threat of poor performance if their demands are not met.

For all these reasons, business officials are privileged not only with respect to the care with which government satisfies business needs in general but also in privileged roles as participants in policy deliberations in government.

At least hypothetically, government always has the option, if dissatisfied with business performance, of refusing further privilege and simply terminating private enterprise in a firm, industry or the entire system. Short of taking that course, however, government has to meet business needs as a condition of inducing business performance.

Market and private enterprise thus introduce an extreme degree of mutual adjustment and political pluralism, even in the absence of polyarchy. The mutual adjustment is not always explicit through meetings and actual negotiation. Nor does government usually enter into an explicit exchange with businessmen. Mutual adjustment is often impersonal and distant. It operates through an unspoken deference of administrations, legislatures, and courts to the needs of business. And it relies on a multitude of common tacit understandings shared by the two groups of leaders, business and governmental, with respect to the conditions under which enterprises can or cannot profitably operate.

In addition, business executives come to be admitted to circles of explicit negotiation, bargaining, and reciprocal persuasion, from which ordinary citizens are excluded. Other leaders are admitted—union and farm leaders and other interest-group representatives. In these consultations, however, corporate executives occupy a privileged position, since they and not the interest-group leaders are there mainly in their capacity as "public" officials.

It follows that evidence, which is abundant, of conflict between business and government—and of business defeats—is not evidence of lack of privilege. Knowing that they must have some privileges and knowing that government officials fully understand that simple fact, businessmen ask for a great deal. They also routinely protest any proposal to reduce any of their privileges. They are not highly motivated to try to understand their own needs. It might weaken them in governmental negotiations to do so. Hence they often predict dire consequences when a new regulation is imposed on them, yet thereafter quickly find ways to perform under it.

It appears that disputes between government and business are intense because of—not in spite of—their sharing the major leadership roles in the politico-economic order. Inevitably two separate yet cooperating groups of leaders will show hostility to each other. They will also invest some of their energies in outwitting each other, each trying to gain the upper hand. Conflict will always lie, however, within a range of dispute constrained by their understanding that they together constitute the necessary leadership for the system. They do not wish to destroy or seriously undermine the function of each other.

They therefore do not dispute the fundamentals of their symbiotic relationship—private enterprise itself, private property in productive assets, and a large measure of enterprise autonomy, for example. They dispute over an ever-shifting category of secondary issues—such as tax rates and particulars of regulation and promotion of business. Imagine a continuum of possible combinations of business and governmental control over politico-economic life, ranging at far left from extraordinary autonomy for the business enterprise—some extreme form of laissez-faire—to a terminus at the extreme right at which the autonomous business enterprise vanishes in favor of production in the hands of government agencies. Extreme positions on such a continuum are not disputed by government and businessmen. Some narrow range of disagreement is, however, constantly disputed.

It appears also that the range slowly shifts, decade by decade, in the direction of less privilege for business and more authority for government. But at any time there is, even allowing for businessmen's gradually learning to perform in a less privileged position in government, some minimum of privilege short of which inducements will fail to motivate business performance. An illustration is the demand for privilege that giant multinational corporations can impose on small nations. Either the demands are met, or the corporation goes elsewhere.

really? if arguing that assured conflict shd be discounted...

Dimensions of the Privileged Position

Everything we have now outlined on the privileged position of business and on the duality of leadership in all private enterprise systems rests on familiar observable aspects of these systems. Some further brief detail, however will illuminate the phenomena.

Government officials, we have seen, routinely and explicitly acknowledge the necessity of adapting public policy to the needs of business whenever, say, they talk about using tax or monetary policy to stimulate business. The explicitness and precision of their acknowledgement, however, often goes further and clarifies the full dimensions of the privileged position of business. For example, in a suit brought against the Richardson-Merrell pharmaceutical company because its product MER/29 produced a variety of symptoms including cataracts, it was established to the judge's satisfaction that over a ten-year testing period the company had repeatedly suppressed evidence of the drug's dangers, filing falsified reports to the

Food and Drug Administration. Yet the judge refused to award punitive damages, fearing that if he did,

> A sufficient egregious error as to one product can end the business life of a concern that has wrought much good in the past.[8]

It is an elegantly simple example of acknowledged need to accommodate public policy to the needs of business, if business is to do its tasks.

For another example, Peter Peterson, then the chairman of the President's Council on International Economic Policy, declared: "The government has to foster in a planned and targeted way" those industries—he was speaking of American enterprise abroad—that are most promising.[9] Or, commenting on a $250 million loan to save Lockheed, U.S. Secretary of Commerce John Connally said: "We feel that the impact that the demise of this company would have would be of such proportions that it ought not to be permitted in the interest of the economic revival of the nation."[10] An Italian civil servant says: "The bureaucrat then is in a very weak position if he seeks to oppose Confindustria, particularly when the latter says, 'you must do the following regarding this industrial sector or you will cause crisis, bankruptcy, and unemployment.'"[11]

Businessmen sometimes acknowledge their privileged position in both word and deed. In the United Kingdom, for example, the Federation of British Industries (now merged in the Confederation of British Industry) routinely maintained both formal and day-to-day informal communication with the Treasury, Board of Trade, Home Office, and the ministries of Housing, Education, Local Government, Power, Transport, and Aviation, in addition to frequent communication with other ministries and offices. In so constant and broad an exercise of influence, the Federation "acted as if it were the industrial counterpart of the Civil Service, and avoided as far as possible actions which made it look like a pressure group." "It looked and acted like a government department."[12]

In Japanese politics an intimacy of connection between businessmen, civil service, and legislators goes beyond that of the United States or the Western European polyarchies. It is a connection that government officials do not establish with labor or any other groups. It is achieved by devices including family connection, old-school ties, and movement of personnel from government to business. "Business becomes the major concern of government," business and the bureaucracy achieve a "symbiosis." A prime minister describes the big business community as the "compass" of the ship of state.[13]

A former public relations officer in an American corporation advises businessmen: "Let it be publicly known that business climate is a very important factor in determining the selection of states and communities in which to locate new plants. The importance of this is that it places on the defensive the people who are beating upon, overtaxing, and harassing business."[14] He is speaking of a commonplace phenomenon that most people take for granted: extracting privileges from state and local government. Many other responses to business demands are also routinized without controversy.

But if government accommodation of business demands is often routine and familiar, it sometimes takes a twist that refreshes our understanding of the strength of corporation executives in their privileged portion. For example:

> Unless the British government agreed to provide massive aid for Chrysler's troubled British subsidiary, Riccardo [chairman of Chrysler] said, the company would be forced to shut down its five major plants in Britain and cashier its 25,000 employees there. . . . Wilson denounced the Riccardo ultimatum, angrily protesting that Chrysler had left the government "with a pistol at its head." But last week in a startling, if characteristically Wilsonian, about-face, the Prime Minister agreed to help out Chrysler after all.[15]

Governmental responsiveness to business demands shows up in other unexpected ways. An oddity in American law, for example, permits corporations whose officials have been convicted of crimes to continue to use their services while they are on probation or after their sentences have expired, while union officials are prohibited from returning to office for five years after conviction.[16] For another example, a subcommittee of the Senate Armed Services Committee found that stockpiling of materials ostensibly needed for national defense was actually undertaken without respect to national security needs, the "primary purpose" being the subsidization of mining companies.[17] A French businessman says of French planning:

> I would disagree . . . that the primary purpose of the plan is "to bring economic power under political control." It is rather to help the businessman to expand his economic activity.[18]

And from a study of French planning:

> . . . there is no doubt that the activity of planning, as it is practised in France, has reinforced the systematic influence exerted by large-scale business on economic policy. Sometimes this influence is open and apparent, as when the Fourth Plan's investment policy for steel was modified in 1963 in deference to the wishes of the steel industry, despite the barely concealed objections of certain government officials. Subsequently, when the industry was offered a sufficient financial inducement by the Government—in the form of a reduction in the tariffs on imported US coking coal and a rebate

> on their social security payments—they agreed to an increase in the steel manufacturing capacity to be laid down in the Fifth Plan.[19]

French planning is thus in some part even an explicit exchange of favors: industry offers performance—expansion, relocation, technological innovation, and the like—in exchange for governmental favors like tax rebates, subsidies, or credit advantages. Similarly in the National Economic Development Council in the United Kingdom "each party offers something which is conditional on certain actions by others."[20]

In Germany earlier corporate decentralization measures left business unwilling to undertake the vast tasks of postwar reconstruction. The measures had to be abandoned. Demands from business accomplished the same erosion of controls on business size in postwar Japan.[21] In Italy the Institute for Industrial Reconstruction is a focal point for business demands and governmental responses necessary to induce business to mobilize the large amounts of capital needed for modern industry.[22]

Obviously in no system do businessmen get all they ask for. The task of government is to find responses to the demands of businessmen sufficient to motivate them to perform the tasks delegated to them, but without simply turning policy making over to them lock, stock, and barrel. It is a task that requires great skill if it is to be done well enough to maintain both economic stability and growth. French planning has in recent years been applauded as a demonstration of skill in the design of indulgences to business, and sluggishness in the American economy held up as an example of its absence.

Sometimes governments fail to respond to business demands even though the penalties, which come in the form of slowed growth and unemployment, are severe. In the less developed parts of the world, the growth of markets and enterprise is repeatedly hindered by the failure of governments to provide necessary infrastructure and other supports. In India a principled hostility to private enterprise has for more than a decade constrained the Indian government not to provide the supports that business wants. The result has been retarded industrial and commercial development. The possibility arises also in the developed nations. After World War II, French business was under heavy attack for its collaborationist tendencies during the war. It was consequently not disposed to invest. Some businessmen prepared to emigrate, so great was hostility to them. The government of France had to find new inducements for French business in order to induce it to take up its responsibilities again.[23], *

* When in his inaugural address in 1953 President Eisenhower declared that "we need markets in the world for the surpluses of our farms and our factories," he was acknowledging that businessmen make demands on government in foreign policy as well as domestic policy, just as the chairman of the President's Council on International Economic Policy, we saw, understands that government has to foster business activity

Yet ordinarily as new conditions or problems arise—for example, public demands for restriction on air pollution—businessmen know that government officials will understand their wishes—in this case their unwillingness or incapacity to bear without help the costs of stopping industrial discharges into the air. Businessmen will find the government official ready to acknowledge their special competence and interest, eager to welcome them into negotiation, anxious about the possible adverse effects of costly antipollution measures on prices and production. Thus, as environmental concerns mounted, President Nixon established in 1970 the National Industrial Pollution Control Council to allow businessmen communication with the president "to help chart the route by [sic] which our cooperative ventures will follow." Similarly, out of concern that widespread new consumer offices in various federal agencies might be damaging to business, he established in 1971 the National Business Council for Consumer Affairs, again to allow businessmen to communicate regularly with him.[24]

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overseas. We would go astray if we tried to incorporate into the analysis the complexities of business in international markets and politics, but it is essential to note that the duality of leadership in market-oriented systems extends to foreign policy.

Whether business demands on government in market-oriented systems drive governments inevitably into a new form of imperialism is a somewhat different question, again beyond our inquiry. The smaller market-oriented systems are not imperialist, and France and the United Kingdom appear to be retiring from earlier imperialist roles. The charge of imperialism is an interesting allegation only when brought against the United States as a superpower—and against the U.S.S.R. as another. Yet unquestionably the superior resources and capacity to mobilize authority and other power in international relations give all the industrialized market-oriented systems, large and small, great advantages in international negotiation and commercial dealings with the less developed countries, which they typically use to their own perceived advantage. See Benjamin J. Cohen, *The Question of Imperialism* (New York: Basic Books, 1973).

It is also alleged that business demands on government drive market-oriented systems into heavy defense expenditure and into war, and indeed that these systems cannot grow without heavy defense expenditure. Again, the exploration of the many facets of these allegations is beyond us. But some points are quickly established. Military expenditure is not correlated with type of politico-economic system. The big spenders are both the United States and the Soviet Union. Most industrialized market-oriented systems spend less than the communist nations of Eastern Europe. As for whether defense spending helps the economy, among market-oriented systems those with the largest defense spending are the slowest growers. Heavy defense spending is possibly an obstacle to growth and may help explain slow American growth in recent decades, just as its absence helps explain high Japanese and Mexican growth. For a summary of evidence, see Harold J. Wilensky, *The Welfare State and Equality* (Berkeley: University of California Press, 1975), pp. 82–84.

Similarly, the military-industrial complex, called to the nation's attention by President Eisenhower at the end of his term, is, again, largely an American and Soviet phenomenon, hence presumably attributable, at least in part, to their superpower roles. In amount of military spending, intimacy and frequency of association between defense corporations and government officials, and development of a special sector of the American politico-economy, a distinctive phenomenon has developed, to which Eisenhower's term is appropriately applied. But not in the market-oriented systems as a category.

Businessmen only rarely threaten any collective action such as a concerted restriction of function. Ordinarily, they need only point to the costs of doing business, the state of the economy, the dependence of the economy's stability and growth on their profits or sales prospects—and simply predict, not threaten, that adverse consequences will follow on a refusal of their demands.

Ostensibly businessmen do nothing more than persuade. They simply acquaint government officials with the facts. But prophecies of some kinds tend to be self-fulfilling. If spokesmen for businessmen predict that new investment will lag without tax relief, it is only one short step to corporate decisions that put off investment until tax relief is granted.

Business Authority in Government

The far edge of the privileged position of business is represented by actual grants of government authority to businessmen. Decades ago in the United States the right of eminent domain was granted to private utility corporations, conferring on them compulsory authority to acquire land for their operations. In this and other ways governments respond to demands with a formal or informal grant of authority to businessmen, cementing their privileged position in government.

Business groups that become established as clients of specific U.S. government agencies often win grants of informal authority. Examples are the civil contractors dealing with the Army Corps of Engineers, the Rural Electrification Administration, and the Small Business Administration, respectively. Their collaborations have been characterized as "joint government by public and private bodies."[25]

Some of these grants are relatively explicit. The president of the United States grants authority to executives of regulated industries to veto appointments to regulatory agencies.[26] Some are formal. Since 1933, the president, Cabinet members, and other high officials have met with the Business Council, composed of leading corporate executives.[27] The federal government has also established between 1,000 and 2,000 business councils to consult with agencies on common policies—this in addition to about 4,000 particular to the Department of Agriculture.[28] In addition, it invites corporation executives, while still active in and salaried by their own corporations, to serve as unpaid government officials.

In 1953, that practice was given a more permanent peacetime basis when the Business and Defense Services Administration was established. Of it, a congressional committee said:

> In operation, the organization arrangements of BDSA have effected a virtual abdication of administrative responsibility on the part of the Government officials in charge of the Department of Commerce in that their actions in many instances are but the automatic approval of decisions already made outside the Government in business and industry.[29]

For less formal grants, the line between granting a rule of obedience, thus establishing an acceptance of authority, and yielding to the offers or threats of exchange is often a thin one. This point is made by a report on consultations on New York city and state finance:

> One stumbling block to the [absorption of] $3 billion of New York City's short-term debt was resolved yesterday. . . . The one agreement reached . . . was on a demand from the investment community that the city sales tax be converted to a state sales tax.[30]

In France business committees are also commonplace.[31] An industry and its associated ministry commonly develop a sharing of authority in making and implementing policy for the industry. It is intended that authority be shifted to the industry, and the shift is made even more definitive by moving much of the work of the ministry to the industry, whose cooperating staff often greatly outnumbers that of the ministry. The result is that decisions reached by the industry are ordinarily given ministerial approval.[32] In French planning, ostensibly a cooperation among government officials and business and union representatives, authority denied the latter is granted to the former: businessmen but not labor leaders can chair the *commissions*.[33]

In the United Kingdom hundreds of business advisory committees confer authority on corporate executives. In addition are special departmental committees and royal commissions, in which what begins as an advisory role for businessmen and other participants "becomes active participation in administration, as if the administrators were no longer able to bear alone the burden of the administrative State and had to pass it along to private individuals."[34]

In West Germany, representatives of national industry associations confer on new legislation with civil servants who refuse similar rights of participation to members of parliament.[35] And government agrees to membership on a special body on cartel legislation "even though to do so had the rather unorthodox effect of putting the BDI (Federation of German Industry) on an equal level with itself in the formulation of policy."[36] In Japan, the *genkyoku* offices, each responsible for certain

industries, are paralleled by industry associations, and for each industry the two organizations negotiate and collaborate on policy for the industry.[37]

* * *

Under these circumstances, the "For years I thought what was good for our country was good for General Motors, and vice versa," spoken by a president of GM is easy to understand. However partisan they may be in fact, however uncritical about the coincidence of their own interests with broader public interests, businessmen do understand that they carry a public responsibility for discharging necessary public functions that other nongovernmental leaders do not carry. If they are, on the one hand, capable of gross abuse of that responsibility, they are, on the other hand, at least dimly aware of their special role as one of two groups that constitute a dual leadership in the market-oriented systems.

In a passage that could be taken as a summary comment on the line of analysis so far, Woodrow Wilson once wrote:

> The government of the United States at present is a foster-child of the special interests. It is not allowed to have a will of its own. It is told at every move: "Don't do that; you will interfere with our prosperity."[38]

In these comments, Wilson is angry. He sees these characteristics of government as inexcusable. On that, opinions will differ. My point has been only to explain the fundamental mechanism by which a great degree of business control, unmatched by similar control exercised by any other group of citizens, comes to be exercised over government and to indicate why this is inevitable in all private enterprise systems if they are to be viable.*

Again; businessmen do not get everything they want. But they get a great deal. And when they do not get enough, recession or stagnation is a consequence.

We have not wholly specified the policies or objectives that corporation executives use their privileged position to pursue. Some of their pursuits

* The proposition does not deny that persons who have scientific, technical, and other specialized information grow in influence in a society that is increasingly dependent on that information. They do not demand influence; they simply achieve it by reason of what they know. See Daniel Bell, *The Coming of Post-Industrial Society* (New York: Basic Books, 1973), pp. 358–67, and R. E. Lane," "The Decline of Politics and Ideology in a Knowledgeable Society," *American Sociological Review* 31 (October 1966). However pervasive their influence, it is ordinarily indirect, affecting outcomes through its impact on government officials, businessmen, and others who employ the producers of knowledge.

have been made clear: among many others, autonomy for the enterprise, tax favors and subsidies, restrictions on unions, a great variety of monopolistic privileges (tariffs, patents, retail price maintenance, weak antitrust enforcement, encouragement of mergers, fair trade restrictions on competition, occupational licensing, permissive regulation of public utilities, among others). All represent pursuits on which business prevails, though never without limit and with even occasional sharp defeat. We have also seen that the entire industrial structure is largely the result of business decisions on the whole sanctioned and sometimes implemented by responsive government officials. These decisions determine the size of plants and firms, the location of industry, the organization of markets and transport—hence the configuration of cities, on one hand, and the bureaucratization of the workplace, on the other.

It might therefore be argued that some of the most fundamental and pervasive features of industrial society are what they are because of the privileged position of business in government and politics. The possibility also has to be entertained that a remarkable historical stability in the distribution of wealth and income—despite all the policies of the welfare state, and even in egalitarian Scandinavia—owes much to the privileged position of business. So also the survival of the private enterprise system itself. All these possibilities will be explored further in later chapters. We begin by examining now the particular relations between business privilege and polyarchy.

14

The Consequences for Polyarchy

THE preceding chapter brings us to a question: What are the implications for polyarchy of the privileged position of business? An answer does not seem hard to find. The systems we call polyarchies are in fact complex systems in which two forms of control operate on government officials: those of polyarchy and those exercised by businessmen through their privileged position. Or, to put it another way, the systems we call polyarchies operate under two groups of leaders. But only one of them is systematically subject to polyarchal control.

A New York Times political columnist noted at the time: "Two months before he takes the oath of office as President, Jimmy Carter already is face to face with one of the major questions that will determine the course of his Administration. Will he seek at the outset to gain the confidence of the business and financial community, or will he risk their disfavor by moving rapidly and perhaps radically to attack the economic and social ills he campaigned against?" At the same time Carter's advisor on appointments declared that the new president wants a secretary of the treasury "who can verbalize the concerns of the financial community and anticipate the financial community's reaction to economic decisions he might take."[1] Such comments occasion no surprise. That officials are torn between two control systems is widely acknowledged.