

By Peter S. Barth

Profit Most, Serve Best?

Assessments of big business

From the origins of the republic, a continuing issue has been the relationship between government and business. How large a role should the government play in shaping the decisions of the private business sector in this country? And how much influence should business have in the formation of public policy?

Certainly, the issues have not been missing in the election campaigns at the national level for most of our history. If they have not emerged as matters of general principle, they have been developed as candidates for public office target specific industries for special attention. At various times in recent campaigns, specific industries such as oil, pharmaceuticals, HMOs, insurance, tobacco, timber and others have been on the receiving end of criticism from candidates expressing dissatisfaction with their activities.

The alternative to unfettered private decision-making presumably is greater control by government, either through regulation and mandates, or outright government ownership. Outright government ownership of most business appears never to have had strong support in

this country. Moreover, with the repudiation of the Soviet-style economic system in much of the world where it existed for decades, it seems unlikely that Americans will find this alternative appealing at the outset of the 21st century.

However, supporters of greater government involvement in American business appear to believe that private ownership can effectively coexist with government controls, creating a desirable balance between polar positions.

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Some sectors support the argument that greater government supervision is needed by pointing to a perceived threat business can pose for the American political system. Greater controls are required, they argue, or corporate America will undermine the country's political institutions. For example, Ralph Nader argued in his 2000 presidential nomination acceptance speech that

Over the past 20 years we have seen the unfortunate resurgence of big business influence, generating its unique brand of wreckage, propaganda and ultimatums on American labor, consumers, taxpayers and generically, American voters. Big business has been colliding with American democracy and democracy has been losing.

And as far back as 1864, none other than Abraham Lincoln warned that

As a result of the war, corporations have been enthroned, and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the republic is destroyed.

Such criticism of the role of American business appears to contradict the views expressed a half century ago by Charles Wilson, a former chairman of General Motors, who argued that what was good for General Motors was good for America.

While public figures may debate this issue and seek to enlist public support for their views, it is likely that a major determinant of public policy in this discussion will be the opinion of the American people.

One might suspect that the public's attitude toward the relationship between business and government is likely to reflect the short-term contemporaneous condition of the economy and government. Certainly, the very sharp economic dislocation caused by the oil embargo of 1973-74, and by the further tripling of oil prices in 1979-81, may have affected and sharpened attitudes toward the need for greater government involvement in economic and business matters at that time.

“Large-scale American enterprise has made at least some contribution to the very high standard of living most Americans enjoy.”

During the latter part of the 1980s and the beginning of the 1990s, the widespread reporting of plant closures, business “restructuring,” overseas relocation of American enterprises and the activities of multinational corporations could have reshaped public opinion.

During the latter part of the 1990s, attitudes towards business may have changed as the Dow Jones averages reached levels that were unthinkable only a few years earlier, as the wide distribution of stock ownership also reached record levels, as employee stock ownership programs might have increased the sense of public participation in business decision-making, and as unemployment problems were replaced for many by concerns about labor shortages.

Moreover, with the turn of the century, the public might have changed its perception of the super-rich. Instead of the stereotypical “fat cat,” a new image emerged of millionaires who were industrious 20 or 30-year-old entrepreneurs, and who caught the wave of technological change and created wealth for themselves, their employees and for the nation.

Did the public's attitude change over time, or has it remained stable despite such vagaries of the American economy?

In evaluating the public's opinion of business, it is abundantly evident that people do not perceive it as a homogeneous entity. Putting aside attitudes the public may hold about specific industries, an important divide exists between business considered as “big business,” or “corporate,” and small-scale enterprises. For example, a 1994 survey conducted for the Democratic leadership found that 80% of respondents had warm feelings toward small business, in contrast to 36% with warm feelings for big business.

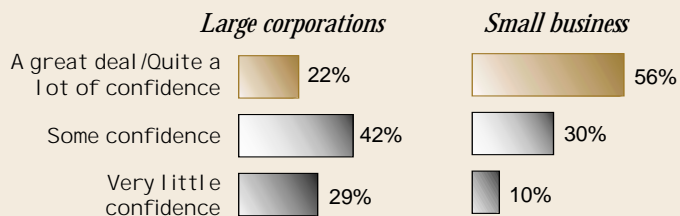
From 1977 to 1983, Opinion Research Corporation posed a series of questions to the public regarding the trust and confidence they had for small business versus large business. Small business was consistently regarded with more trust and confidence than large business, and by a substantial margin.

More recently, the Council for Excellence in Government asked how much confidence respondents had in large corporations and small business. The results from this 1999 survey were consistent with the earlier findings (see Figure 1). Fifty-six percent responded that they had quite a lot or a great deal of confidence in small business, compared with 22% holding these views regarding large corporations. Twenty-nine percent had very little confidence in large corporations, compared with only 10% for small business.

Figure 1

Small Businesses Inspire Confidence

Question: I am going to read a list of institutions in American society, and I'd like you to tell me how much confidence you have in each one—a great deal, quite a lot, some, or very little confidence...?



Source: Survey by Hart and Teeter Research for the Council for Excellence in Government, May 21-June 1, 1999.

That Americans hold very different views toward large enterprises compared to small ones is hardly surprising. While the public has shown no obvious ill will to the retail sector of the economy, Wal-Mart has encountered serious objections to its locating in certain communities because of its scale. Similarly, the Seattle-based chain, Starbucks, has recently begun to encounter resistance as it seeks to locate its small coffee shops in some areas. Though none of these shops can be remotely considered as large-scale, the corporation can be, as it has expanded across the world.

Yet another factor affecting the public's attitude is the degree to which business can influence matters that affect them. For several decades the public has been asked if big business has too much power concentrated in its hands. From 1975 to 1999 surveys by Yankelovich, Gallup, Times Mirror, and the Pew Research Center have found that from 71 to 85% of respondents believed too much power was concentrated in the hands of a few big companies. The highest rates of agreement occurred in 1975, 1979 and 1989, years when the US economy was performing particularly poorly.

Throughout the decade of the 1990s, however, as the economy experienced both strength and weakness, the public consistently responded within the 71 to 80% range that business had too much power concentrated in its hands. Current media suggest that the public's concerns regarding excessive corporate power are new, but clearly, this is hardly the case.

Another factor that may shape the public's attitude toward "big business" is its perception of profits. In the election campaigns of 2000, a number of industries, including oil and pharmaceuticals, were excoriated by some candidates for making "obscene" amounts of profits. If Americans believe that corporate profits are excessive, it is likely they will hold some negative opinion towards business. (Admittedly, an issue of causality arises here since a negative attitude toward business for any reason might cause one to view profits as excessive.)

Over the past several decades, the public has been asked to evaluate the level of profitability of large businesses. The data in Figure 2 are drawn from surveys that asked respondents if they thought "business as a whole" (1969-87) or "business corporations" (1994-2000) were making too much profit,

a reasonable profit, or not enough profit. In the years bounded by 1969 to 1973, the majority of those responding believed that profits were reasonable. (The 1973 survey was taken in July of that year, prior to the OPEC oil embargo and the huge run-up in energy prices that created a shock for the economy.) Still, the minority that believed profits were excessive was a sizable one.

From 1976 to 1981, a majority of respondents indicated that profits were too high. In 1983, the proportions of those who thought profits were reasonable and those believing they were too high were about equal, but in 1986, the proportion believing that profits were too high fell to 24%. Strikingly, corporate profits after taxes fell by 13.7% (in current dollar terms) in that year from 1985 levels, according to the 2000 Economic Report of the President. Yet in a survey taken in August-September 1987, 41% responded that profits were too high, in a year when profits rebounded by 13.1% over the 1986 level.

During the middle and late 1990s, profits were well above earlier levels and grew throughout those years. Over half of surveyed respondents consistently indicated that profits were too high, with a minority reporting that they were fair and/or reasonable. Though the proportions that believed profits were too high were well above those for the early 1970s and for 1983 and 1986, they were absolutely in line with the small majorities that believed so in the 1976-81 period.

The picture looks somewhat different when the question of excessive profits is put to respondents in a different way (see Figure 3). From 1987 to 1999, people were asked if profits were or were not too high. In the surveys noted above, respondents were able to select one of three options: that business was making too much profit, not enough profit

or a reasonable profit. With alternative surveys from 1987 forward, respondents were asked to agree or disagree with the statement that business corporations were making too much profit. By dropping the possible response that business profits were reasonable, respondents were left with the choice only of agreeing or disagreeing with the statement.

Several things seem evident when the issue of profits is raised in this way. First, a larger proportion of respondents appear to believe that profits are excessive when the respondent is not asked if profits are reasonable or fair. For example, while 65% responded in April-May 1987 that *business corporations* make too much profit, only 41% found that *business as a whole* was making too much profit in a survey taken in August-September 1987. In the latter survey only, the respondents were able to select the choice that business was making a reasonable profit. Conceivably, also, the public was differentiating between corporations and business as a whole.

From 1987 to 1999, respondents indicated that profits were too high, in a range of 56 to 72%. No trend is evident over that period. In many of those years, the proportions that believed that profits were too high were more than twice as large as those who did not believe profits were excessive. The 72% rate occurred in early 1989. Note that corporate profits leaped by 22% in 1988, on the heels of a growth in corporate profits of more than 13% in 1987. One is tempted to conclude both that Americans have an awareness of reported corporate profit levels, and that their attitude to them is sensitive to changing developments there.

It seems clear that a sizeable portion of the American public holds decidedly negative views toward American business, or at least “big business.” It also appears evident that the public’s perception of the power of corporations and the scope of business profits has not changed very decidedly over time. For those individuals harboring negative attitudes, what remedies do they believe are

needed to check the power of big business? One possible measure many appear to favor is to break large companies up into smaller ones.

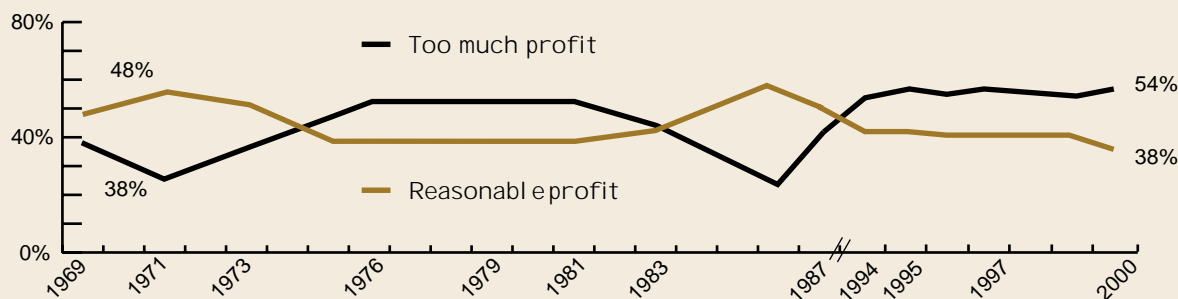
A number of surveys over time asked respondents to agree or disagree that “Many of our largest companies ought to be broken up into small companies.” For surveys by Gallup and ORC that posed this question between 1937 and 1967, those saying that the government should break up those businesses ranged from 32 to 38%. (Note that in 1959, the 38% in favor of breaking up businesses were a majority of those expressing an opinion.)

From 1969 to 1998, the proportion of respondents in ORC and CBS News/*New York Times* surveys who wanted large businesses broken up ranged between 45 and 57% and was always a majority of those offering an opinion. The data show no trend over the past three decades. Since 1969 at least, the changing business environment, the growth of the new economy, and periods of economic expansion or decline

Figure 2

Fluctuating Concern Over Excessive Profits

Questions: Do you think business as a whole is making too much profit, a reasonable profit, or not enough profit?¹; [Which comes closer to your own views] Business corporations make too much profit or most corporations make a fair and reasonable amount of profit?²



¹1969-87

²1994-2000

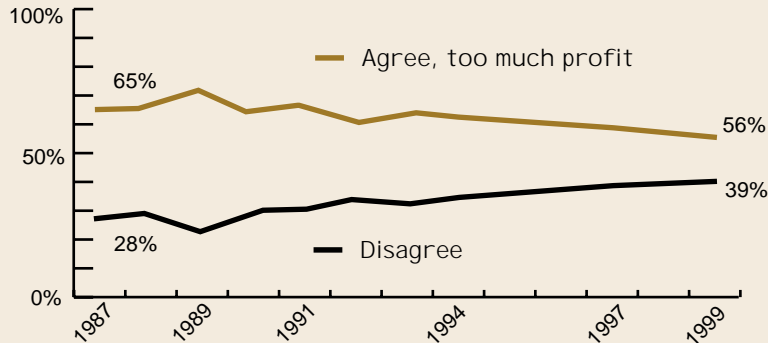
Note: Question wording varies slightly in different years.

Source: Surveys by Opinion Research Corporation, latest that of August 4-September 4, 1987; and by Princeton Survey Research Associates for Times Mirror (1994-95) and for the Pew Research Center, latest that of August 24-September 10, 2000.

Figure 3

Profit Margins Too High

Question: [Do you agree or disagree...] Business corporations make too much profit?



Source: Surveys by the Gallup Organization for Times Mirror (1987-89) and by Princeton Survey Research Associates for Times Mirror (1990-94), and for the Pew Research Center, latest that of September 28-October 10, 1999.

appear to have had little or no impact on the rate of those who would prefer to see big businesses dissolved.

Supporters of the business sector may find some of these attitudes disturbing, but they also have reason for satisfaction with the public's views on several scores. Dissatisfaction with large corporations does not lead people to seek greater government regulation of business. For more than the last fifty years, the public has regularly responded that more regulation of business by government is unwanted. In each of those instances where the public was asked to choose between more government regulation and less, the latter was favored by a wide margin.

And while the power of big business is seen by many as excessive, it is not seen as being as big a threat as big government itself. From 1954 till the present, the public has been asked to identify which is the bigger threat, "Big Government," "Big Business," or "Big Labor." In each survey after 1954 (when the numbers citing "Big Business" and "Big Government" were the same), the proportion feeling that "Big Government" is more of a threat was considerably greater than that which felt threatened by "Big Business."

Both supporters and opponents of large-scale American business can draw whatever conclusions they want from this. A sizeable portion of the American public appears to have fairly strong negative views towards corporate America. This viewpoint has been long held, and if it is changing in degree, that change is small.

Some may consider these findings puzzling. On one side, there can be little quarrel with the notion that large-scale American enterprise has made at least some contribution to the very high standard of living most Americans enjoy currently, measured either by historic standards or by comparison with other economies in the world today.

There is also no doubt that large corporations have provided employment for tens of millions of workers. Moreover, wage and compensation levels in those large-scale establishments are substantially above those in smaller-scale enterprises. (According to *The Monthly Labor Review*, in March 1997, employer compensation costs per employee in establishments with 500 or more workers were 46% above establishments with 100 to 499 workers and 61% above those employing fewer than 100 workers.)

Major enterprises account for a significant share of America's exports, which in turn enable us to import products from the rest of the world. And large enterprises certainly account for a sizeable amount of ongoing investment in plants and technology, along with research and development, allowing the economy to grow and new products to be created.

Critics of large corporations may believe that America's economic position would be even stronger, except for large-scale enterprises. Or, perhaps, some individuals would willingly accept a somewhat lower standard of living in exchange for a return to the smaller scale of businesses that existed prior to the post-Civil War era, though this seems unlikely.

An alternative view is that many of those expressing doubts or negative feelings about large businesses believe simply that a vigilant government is needed to assure that business does not use its power excessively, either politically or economically. However, that perspective is not easy to reconcile with the finding that fully one-half of the public in a 1998 CBS/*NYT* survey agreed that the largest companies ought to be broken up into smaller ones.

While supporters of big business should find some grounds for concern about much of the American public's attitudes, little has changed attitudinally since the late 1960s. As such, if this attitude did not lead to widespread reaction against business over that time, there might be little reason to fear for its continued survival on a large scale. And the substantial public wariness, both about greater government regulation of business, as well as the potential threat of Big Government, should serve as a check on those who would seek to shift more power from the private sector to the public sector. Overall, the public's attitudes toward both government and business appear to suggest that it is size—large-scale—that has been the public's long-term concern. ●