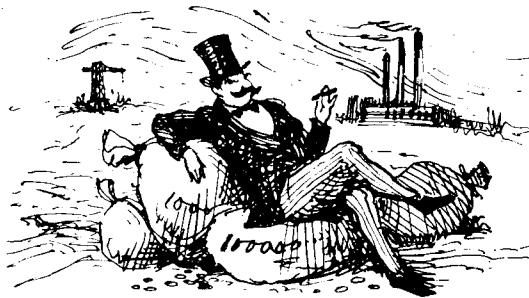


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The
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by
Lindley
H. Clark Jr.
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Lessons in Free Enterprise (II)

What follows is the second of four columns by the economic news editor of the Wall Street Journal on the practice of business in America.

In recent years "the social responsibility of business" has been a major cause urged by intellectuals and accepted, with charming naiveté, by hundreds of businessmen who ought to know better. Business exists not solely to make a profit, intone many corporate presidents, but to serve the public good.

There are limits to this business willingness to cast aside crass commercialism, however. In the inflation of the late 1960s and early 1970s, no businessman we've noticed has come forth to forswear forever all price increases, despite the fact that the public good surely would be served by stable prices.

In the first place, most intelligent businessmen know they are not to blame for inflation. If they possess monopoly power, government is to blame for inadequate enforcement of the antitrust laws. If they possess no such power, competition will roll back any over-large price increases—unless the government is floating the whole economy upward by printing too much money.

Not so incidentally, labor unions are subject to the same restraint. If they push through excessive wage increases, they will only price some of their members out of the labor market—unless government validates the increases by inflating the economy.

More broadly, many businessmen presumably recognize that swearing off price increases serves neither the interest of their enterprise nor the true public good. If a commodity is in short supply, a price increase encourages more production, both by present producers and often by new ones. As supply rises, price will tend to fall.

If, on the other hand, the price is held down, the result is to discourage production. If the product is something the public wants or needs, it soon finds it cannot buy as many as it needs or wants. Soon a paternalistic government is likely to step in and ration out the available supply.

What many businessmen, as well as many members of the general public, seem not to recognize is that by embracing social responsibility in general they also are not serving the interests of a free society. They are in fact adopting a peculiar form of socialism.

Let us say, for instance, that a "socially responsible" businessman elects to hire only members of a minority group, whether they are qualified or not, instead of hiring

qualified workers, regardless of race, creed, or color. No one questions that the minority in the past has been subject to serious discrimination, so how can anyone object to the businessman doing his part to right past wrongs?

Well, the owners of the business may object. The do-good project is likely to cut sharply into company earnings and dividends. And customers may object, since an inferior work force is likely to produce inferior products and service. Both owners and customers are in effect being taxed by the businessman, who has actually elected himself as a sort of government official, to finance and administer his self-designed project to improve the public welfare.

More than that: The project is likely to waste resources of capital, machinery, and management. Yet there will be no democratic pressures to dissuade the businessman from his unwitting venture into socialism.

No one is saying that the minority group should not be helped. But in a free society the aid should stem from a conscious decision of the body politic, not from the random whims of businessmen. The public's elected representatives have the power to devise programs and to levy taxes to finance them. If the public does not like the programs or the taxes, it can throw out the representatives and get new ones.

In recent years many corporations have been subject to strong pressure from the public or from minority stockholders to support numerous public causes. When corporations cave in under such pressure, they once again are levying a tax on their stockholders for a purpose that the stockholders, or at least the bulk of them, have not approved. The corporations once again are weakening their chances to survive and to continue to render efficient service to the public.

There are of course many legitimate reasons for corporations to do what superficially may appear to be only "good deeds." A few carefully selected gifts to charity may improve a corporation's image and win it friends among potential customers and stockholders. Hiring handicapped workers often can be very good business, since such workers frequently are not only highly qualified but highly motivated to make good on a job—and keep it.

Many corporations will encourage their executives and employees to take part in social-interest projects in the communities where the companies operate. They may even give the employees time off for such projects. If the company is honest about it—and many firms are not—it will admit that the overriding aim is to enhance the

position of the corporation in the community where it operates.

In these times when corporations generally have been having their troubles with their public image, a certain amount of this sort of advertising can be justified on a purely profit-seeking basis. Unfortunately, it is all too easy for a company to slip over the line that divides profit-seeking from halo-seeking. The cases of corporate directors using the stockholders' money to support their favorite charities are far from rare.

The primary responsibility of business still has to be business. If a businessman produces the best products he can and provides the best possible service, he will serve his interests, the interests of the owners of the business, and the interests of the general public.

It's partly a matter of competence. No matter how well-intentioned the businessman may be, he's likely to be much more adept at running an assembly line than he is at planning and administering a social program. If he doubts that, he should examine the performance record of the trained professionals who have devised and operated the multiplicity of social programs set up by federal and state governments in recent years. The record has been sorry enough; does he think that he, an amateur, can do better?

It's surely worth mentioning that an efficient, profit-seeking business establishment is the chief source of the tax revenues that support public social programs, good and bad. It either pays the taxes itself or its employees pay them on the incomes that the businesses generate.

None of this should be read as an argument that business, if it concentrates on profits, will automatically serve the public interest to perfection. There must be rules. The best known of these are probably the antitrust laws. Imperfect in design and execution, these laws need to be improved. But government can and must see to it that businessmen don't combine among themselves against the public.

If the public's representatives decide that pollution of the air and water must be combatted, they can and do pass laws that force businessmen to join in the fight. The fact that these laws do not always result from a careful weighing of costs and benefits is surely no argument that businessmen should willy-nilly take on the fight themselves. Pollution regulations are a tax imposed on business and, through higher prices, the general public. Even if all business would adopt adequate regulation, it still would mean that private bodies were imposing public taxes.

Government can help to make business more responsible by making it more competitive. Restrictions on imports surely work against competition and against the public interest. Fair-trade laws, now thankfully on the decline, work in the same direction.

Adam Smith, that early advocate of free enterprise, recognized the need for rules. He also saw the foolishness of the "social responsibility of business." In *The Wealth of Nations* he wrote: "I have never known much good done by those who affected to trade for the public good. It is an affectation." □



Justus M. van der Kroef

Southeast Asia: Accommodation or Surrender?

At the close of July this year, Thailand's Prime Minister Thanom Kittikachorn announced in Bangkok that he was cancelling planned visits to several Southeast Asian neighbor states in view of the increasing gravity of the situation in Indochina. Not only was North Vietnam continuing to pour its troops, tanks, and heavy artillery into South Vietnam, despite the cease-fire agreement, Thanom charged; but also, according to the Thai Premier, North Vietnamese and Communist Pathet Lao forces in Laos were moving closer to Thailand's own northern and northeastern border provinces, the very region where a Communist guerrilla insurgency, which Bangkok claims is supported by Peking, the Pathet Lao, and Hanoi has been in progress. Thanom's announcement underscored again that with the failure of the January 27 Paris cease-fire agreement—a failure compounded to the point of farce by the June 13 reiteration of the original cease-fire accord—the Southeast Asian states today are further than ever from attaining that measure of individual or collective security and peace that would permit them to sustain much needed economic and public administrative growth with reasonable stability.

Several lines of development have intersected to bring about the region's present predicament. First we must note that U.S. reluctance to get into a new land war in Asia is to a degree appreciated and even lauded in some Southeast Asian capitals. Up to a point the Nixon Doctrine presents no problem to Southeast Asia. For a key element of that doctrine, that the United States henceforth expects to "look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defense" has for some time been in accord with the tactical considerations of most Southeast Asian leaders themselves, well aware of the nationalist sensitivities of their citizenries about alleged U.S. or other foreign military "dominance" of their own countries and region. The question, rather, is about the U.S. readiness to sustain regions already committed to an active, first-line defense of their territory against Communist at-

tack, not only against external invasion (e.g., continued North Vietnamese military encroachment in Laos and Cambodia, or the Chinese troops in northern Laos or northeastern Burma) but against the more insidious forms of foreign-supported domestic Communist insurgency (of which Thailand is perhaps the best known but by no means the only Southeast Asian example). Fear that the Nixon Doctrine is but a fig leaf for a U.S. retreat, even from its remaining treaty responsibilities, has markedly grown in the Southeast Asian region.

This anxiety is sharpened by the well-known Nixon-Kissinger vision of a "more fluid and heterogeneous multipolar international order," an order which is somehow going to be "more balanced and stable because it rests on broader, more diversified foundations," and reflects "an even balance" between the United States, USSR, People's China, Europe, and Japan. For the young Southeast Asian states it is not the trenchant western academic criticism by the Hoffmans and the Brzezinskis, to the effect that the Nixon envisaged balance of power is unlikely to be achieved, that is a primary justification for alarm. Southeast Asian considerations are more parochial than that. Instead, there is mounting concern that new big nation diplomacy and power balance strategies will increasingly make of the lesser countries so many fleeting nuisances or international bagatelles, to be ignored or disposed of as occasion demands. Given the domestic weaknesses of the Southeast Asian states, their location in the area of Hanoi's and Peking's expansionist interests at the very time that the USSR also has been mounting a significant diplomatic-strategic offensive in Southeast Asia, and given the continuing uncertainties rising out of the Sino-Soviet dispute no less than out of an administration in Washington emasculated by the Watergate scandal and by its ignoble deception surrounding its Cambodian bombings—in light, then, of all these, the urgency now has become one of finding a new political or strategic mechanism that can offer survival.

Preferred would be survival other than as a client state of any of the super powers.

As Singapore's Premier Lee Kuan Yew put it last March 17: "For small countries the question now is not how to avoid being sucked into the warring camps of the two great powers, but how to have their interests taken into consideration when the great powers reach their compromises." Lee, on this particular occasion at least (for he has not always been so sanguine), may have been unduly optimistic. There is no indication that the super-states are really willing to work out a mutual *modus vivendi* in Southeast Asia. In its absence the Nixon Doctrine and the "multipolar international order" seem but schemes to legalize Southeast Asia's new client status *vis-à-vis* Hanoi, Moscow, or Peking. The prevailing state of affairs reminds one of the last days of the Roman Empire, when, with security and order collapsing, remaining imperial officials exhorted all men to find their own individual protectors. Thus India, in August 1971, confronted with the Bangla Desh catastrophe and its dangerous international implications, dropped all further pretense of "non-aligned" status and formally opted for Soviet protection and a twenty-year security treaty with Moscow. Lee himself has warned a visiting delegation of Australian politicians in Singapore in November 1972 that any power vacuum in his region, including one resulting from the withdrawal of token British, Australian, and New Zealand forces now stationed in Singapore, would quickly be filled by the Soviets. In conversations with Thai and Singapore defense officials in June 1973, I heard variants on the same theme and open skepticism that, even in its modified form under the Nixon Doctrine, an ultimate American deterrent can still be trusted.

The point is worth stressing. For one of the illusions flowing from the much vaunted Nixon initiatives toward Peking and Moscow is that these presumably have given Washington new leverage in dealing with the Communists, permitting her to side now with one, then with the other Communist super power in order to keep the tensions between them within bounds, or, to win an acceptable new *modus vivendi* in Southeast Asia. The reason why such a contention is illusory is because it assumes