
ON THE ECONOMIC IMAGE OF CORPORATE ENTERPRISE

JOHN KENNETH GALBRAITH*

Any discussion of the modern corporation—of the two thousand largest firms that contribute around half of total product in the United States—requires, if it is to be useful, a remarkably basic decision. How, in relation to the state, are these firms to be regarded? Are they to be assimilated to the public sector of the economy? Or do they remain a part of what has always been called the private or market sector of the economy? Is one to have a public or a traditional view of the modern corporation?

In the traditional image of the corporation, a conceptually sharp, even immutable line divides the corporation from the state. There is government; there is private enterprise; the two do not meet. The distinction is deeply cherished by all whose careers and livelihoods are identified with the firms in question. No matter how intricately the firm is involved with the government, it is still private enterprise. This image of the corporation as something separate and wholly distinct from the state is not normally assumed to require any theoretical justification. It is the way things are—the way they were ordained to be. Only someone with an instinct for inconvenience suggests that

* Professor of Economics at Harvard University; director of Price Controls for the Office of Price Administration (1941–43); ambassador to India (1961–63); chairman of the Americans for Democratic Action (1967–69); author of *American Capitalism* (1951), *The Affluent Society* (1958), *The New Industrial State* (1967), and many other books and articles.

firms such as Lockheed or General Dynamics, which do most of their business with the government, make extensive use of plants owned by the government, have their working capital supplied by the government, have their cost overruns socialized by the government, and (as in the case of Lockheed) are rescued from misfortune on their nongovernmental business by the government, are anything but the purest manifestation of private enterprise. And this being so of Lockheed, the question certainly does not arise with American Telephone & Telegraph, General Motors, or General Electric.

But there is, of course, a theoretical justification. The corporation can be private because its operations are subject to the regulation—to the presumptively comprehensive discipline—of the market. The market allows of private purpose because it keeps it aligned with public purpose. The market is an expression of public preference and desire. The firm responds to the market. The firm is thus under public control and the public cannot be in conflict with itself. There are, admittedly, exceptions. Thus, no scholar of independent mind who was unpaid for his opinion would argue that Lockheed or General Dynamics was subordinate to the market. Or (the counterpart case) would it be suggested by many that these firms are subordinate to the political process—that the demand for their products is an expression of public need in which they themselves play a passive role. It is recognized that the Department of Defense persuades the modern weapons firm to produce what it needs. And it is recognized that these firms persuade the Department of Defense to need what they produce. Such firms retain their rationale as private enterprise not because of any conceivable theoretical justification but as a consequence of political inertia and caution. It is politically convenient so to regard them, and also for many politicians a great deal safer.

It is also recognized that the market rationale fails in respect of other large firms. They become large and powerful in their markets. Monopoly or oligopoly replaces competition. So great is their power that the state may be in some measure suborned. But the market in theory remains, though imperfectly, a decisive force. The monopoly pursues profits; what it can make is ultimately subject to the decisions of consumers as to what to buy or not to buy. Though he pays more than he should to the monopolist, the consumer is still presumably sovereign.

And there is a remedy for excessive power by the corporation both in markets and over the government, which is to decentralize the firm, to break it up. Then the original competitive power of the market is restored; the power to suborn the state is reduced or eliminated. The conditions under which private business can be private are thus re-established. But this alternative means recourse to the antitrust laws—laws, it is agreed even by their friends, which have not been effective over the past eighty years of their existence. Big business has indubitably become bigger, more powerful, more monopolistic; still, the antitrust laws are absolutely indispensable to the traditional imagery of the private corporation. Many cannot accept the modern corporation as it is, but they can accept it as it might be if the antitrust laws were enforced. And they can always imagine that some day these laws might be enforced. So with the aid of the antitrust laws they can remain, with no appreciable damage to conscience, with the traditional and essentially conservative position.

The public view of the corporation involves a basic break with the foregoing dialectic. It holds that not only Lockheed and General Dynamics but also A.T.&T., General Motors, Jersey Standard, United States Steel Corporation, and the other great corporations involve a clear break from the economy and polity of the classical market. As they grow and become more powerful, such firms acquire, increasingly, a public character. They become public institutions. The clichés of private enterprise survive but serve primarily to disguise the essentially public character of the great corporation, including its private exercise of what is, in fact, a public power. Such a corporation fixes its prices; it controls its costs; it persuades its consumers; it organizes its supply of raw materials; it has powerful leverage in the community; its needs are, *pro tanto*, sound public policy; it has, on frequent occasion, a hammerlock on the Pentagon.

In this view the large specialized weapons firm is only the extreme case. The line here between public and private enterprise is so exotic as to be impalpable. One can accept it only as a device for diverting the eyes of Congressional committees, the Comptroller General, and the general public away from things like executive compensation, lobbying, political activity by executives and employees, profits, and

bureaucratic error or nonfeasance; in the case of an admitted public bureaucracy or a full-fledged public corporation, these items would invite highly unwelcome attention. It is a formula for hiding public business behind the cloak of corporate privacy.

Again, the specialized weapons firm only begins the analysis. General Motors sets the prices for its cars (and, in conjunction with the other automobile companies, for all cars) with public effect. And it negotiates wage contracts with public effect. And it designs cars and incorporates or rejects safety features with public effect. And it decides on engine design and emissions with public effect. And it persuades the public to its designs with public effect. And it powerfully influences highway construction with public effect. The public decisions of General Motors in the course of any year are far more consequential than those of any state legislature. So with other large firms.

The public view of the corporation not only accepts the tendency for it to assimilate itself to the state but regards this tendency as irreversible. It follows that there is no longer a presumption that the corporation has private affairs that are protected from public scrutiny. Nor is there any presumption that it must be free of public regulation or, for that matter, public ownership. On the contrary, the presumption is favorable to public intervention. The great corporation exercises public power, power that affects the health, well-being, and general happiness of those who are subject to it. This power is exercised—as even its possessors concede—in pursuit of the interests of the corporation. Since this power is no longer subject to the discipline of the market—is no longer *aligned* with public purposes by the market—there is no reason to believe that, except by accident, the exercise of public power by the corporation coincides with the public interest. There is, accordingly, a presumption in favor of action that aligns it with the public interest. So it comes about that on matters as diverse as design of products, acceptance or rejection of technical innovation (such as the SST), prohibition of adverse environmental effects both of the production and consumption of products, military policy, control of wages and prices, and control (as in the case of cigarettes) of public persuasion, one finds the legislature intervening to align corporate power with public purpose. In all this effort there must be an acute perception of the danger that the

corporation will regulate its regulators. But it is to such regulation and other recognition of the public character of the firm, and not to the rehabilitation of market constraints, that one looks for protection and advance of the public interest.

It will not come to everyone as a shock that I think the public view of the corporation is the right one. The market will not be restored. Great currents of history cannot be reversed by small laws. The technological, capital, and planning requirements of modern economic activity are inconsistent with the classical market. As to the antitrust laws, they are eighty years old and the last really important dissolution occurred sixty years ago. Each new generation of reformers has held that only the feckless ineptitude and cowardice of their predecessors had kept the market from being restored. Then, their bravery notwithstanding, they too have failed. It is sensible to conclude that if these laws were going to work wonders for anyone but the lawyers, they would have worked their wonder by now.

They have become, in fact, a basic support to irresponsible corporate power. For they sustain the hope, and thus perpetuate the myth, of the all-powerful market. Consequently, they keep alive the illusion that business is private. They keep the burden of proof on those who propose regulation, or even disclosure. And they totally suppress the possibility (or specter) of public ownership. No one could do more for General Motors than this.

To recognize that the great corporation is essentially a public entity is to accept that its acts have a profoundly public effect. And that is to accept, as noted, the legitimacy of regulation that aligns its actions with public goals. Autonomy may still be accorded to the corporation. This is necessary for effective administration—for efficiency. But this is a pragmatic decision, and no principle is involved. Where the public interest—in safety of products, effect on environment, effect of price and wage settlements on the economy, the equity of profits and executive compensation—is at issue, there is no natural right to be left alone. Nor is there any natural right to secrecy. Nor is there any barrier in the case of the specialized weapons firms like Lockheed or incompetent ones like Penn Central to stripping away the purely artificial façade of private enterprise and converting the corporation into a fully public enterprise. In recent years church

groups and other people of conscience have been agonizing over whether they should invest funds for good works in makers of weapons. It is a ridiculous question. They should be asking whether these firms should exist as private profit-making entities in a civilized state.

Some will say that the public view of the corporation reacts far too lightly to the problem of bureaucracy. At a time when we are learning to appreciate the power of the Pentagon, can we accept the continued existence of industrial bureaucracy? And, in the case of the weapons firms, can we think of adding the industrial to the public bureaucracy? The concern is well grounded. But we have the corporate bureaucracy now, and we have it now in a worse form. For the one thing more inimical than a bureaucracy that we see is a bureaucracy that we pretend not to see. The one thing worse than a General Motors whose public character is recognized is a General Motors whose public character is denied—and whose immunity to public regulation is defended on such grounds. The one thing worse than a General Dynamics or Lockheed that is publicly owned and publicly controlled is a General Dynamics or Lockheed that is publicly owned but privately controlled. There is no magic in stripping away the myth that the market controls the modern corporation or could be made to do so. But it is the first essential for any reform.

It will be suggested that I have not been exactly evenhanded in my judgments between the traditional and the public view of the corporation. And more is involved in the choice than the wholly explicable self-interest of economists in what they teach and write and lawyers in what they believe and practice. The defense of the market and the antitrust laws has never been a strictly secular phenomenon. Profoundly religious attitudes are involved. Neoclassical doctrine which lies back of these attitudes is more than a mere science; it is a highly developed theology. Added to the sense of unfairness will be the sense of outrage that, inevitably, focuses on anyone who appears to ride roughshod over established faith. Yet both truth and great questions are involved. One can sympathize with religious feeling when he cannot bow to it. As to evenhandedness, there is no natural obligation to be neutral between truth and error—between the right path in economic development and the wrong. Economics is not a branch of the television business.

The great issue that is involved is the future structure of the economic system in the most profound sense. Although it is accepted doctrine in Detroit, not many scholars would insist that the modern great corporation is the ultimate achievement of man. The public view of the corporation portends a public development, foreseeing that the great corporations eventually become public enterprises. It invites the use of a word long banned from reputable discussion in the United States, or whispered only among minority cults, which is socialism. The traditional view, as its proponents will be the first to concede, holds up no such prospect—or specter. And that, indeed, is another way of describing its service to the *status quo*. For as long as there is a serious effort to turn back to the eighteenth century, there will assuredly be no advance to the twenty-first or even the twentieth.