


NEWS

**SECURITIES AND
EXCHANGE COMMISSION**

Washington, D. C. 20549

(202) 755-4846



For Release: 7:30 P.M., Tuesday, September 26, 1978

"EGALITARIANISM AND MARKET SYSTEMS"

An Address By Harold M. Williams, Chairman

The Columbia University/
McGraw-Hill Lectures
in Business and Society
New York, New York
September 26, 1978

when I was invited to participate as the first speaker in this series of Columbia University/McGraw-Hill Lectures on Business and Society, I was, of course, both honored and anxious to accept. The subject matter of the series--"Egalitarianism and Market Systems"--seemed to be sufficiently broad and amorphous that I could treat virtually any subject relevant to the contemporary economic or social environment which happened to strike my fancy and still fall safely within its parameters. Certainly the topic of corporate governance, on which I have spoken often during the past year, would, it seemed to me, fill the bill quite well. All-in-all, the opportunity to speak to you here this evening for a half an hour or so appeared to be pleasant and stimulating, but not especially onerous.

Several weeks ago, however, I began to appreciate fully the complex labyrinth into which I had unwittingly permitted the sponsors of this series to lead me. Several attempts to relate both the century-long trend in this country toward greater individual equality and the free--or relatively free--market system which undergirds our economic system to current topics of interest, such as corporate governance, the persistence of inflation, or the restructuring of the

securities markets which Congress has mandated, proved fruitless. Or, perhaps more accurately, that exercise proved too fruitful; any attempt to relate egalitarianism and the dynamics of the marketplace to a particular topical issue rapidly seems to embroil one in broad questions bearing on the future of our society. It was at that point that I fully realized that the title "egalitarianism and market systems" captures the two most fundamental sets of forces and dynamics which define our society. In joining them together, rather than placing them in opposition as choices, the sponsors of these lectures have, I think, recognized that it is the continuous interaction, conflict, and fusion of notions of egalitarianism with the free play of the marketplace that determines the true health and vitality of our society. The extent of our understanding, or lack thereof, of this interaction underlies the perspective which each of us individually brings to economic, social, and political thinking. Indeed, the manner in which our society as a whole succeeds in striking a balance between these two forces may well determine whether it survives into the next century.

For that reason, I want this evening to share with you some of my thoughts concerning this complex challenge.

The theme of my remarks can be easily summarized: In my view, our society today lacks a well-developed, coherent philosophy or theory within which to view the interaction between what we have traditionally viewed as a free market economic system and increasing governmental and political involvement aimed at promoting individual equality. We are, unconsciously for the most part, developing a new political, social, and economic order. The economic forces of the free market and the political and social forces of democracy have always been somewhat conflicting and at odds with each other. But, increasingly, the political forces that democracy lays on top of the economic achievement of a society which promises at least a minimum level of human dignity and opportunity have begun to exert a greater influence. The impact of these social and political forces on the economy is a subject of ever-greater attention. What we need to achieve is an equilibrium between the enormous energies of the free market and the compassion, equal opportunity, and social justice associated with democracy, in such a way that we do not fetter the market and prevent it

from continuing to provide the healthy, growing economy necessary to achieve the promises of democracy.

I have no simple solutions to offer, and I will leave to another day, or at least to the question period following this talk, any effort to relate the resolution of this challenge to any particular substantive issue--such as, for example, who should serve as the directors of our large public corporations and what their responsibilities should be. The inter-relationship between egalitarianism and market systems has obvious implications in that area, as well as in many others touching both business and government. If some of the thoughts I throw out this evening stimulate you to reflect on that relationship, I will have more than accomplished my purpose.

Market Systems

It is, I think, logical to begin with a brief description of some of the critical attributes of both "market systems" and "egalitarianism" as those concepts manifest themselves in our society today.

The market system--and by this I understand the sponsors of these lectures to refer to the concept of an economy in which resources are allocated according to

the free interplay of supply and demand resulting from the overall impact of the decisions of individual businesses and consumers--has tremendous strength and power, as the economic and industrial history of our nation attest. And, it is because the market system is value neutral that it is so efficient an allocator and so prolific a wellspring of goods and services. Unless hampered by external forces, the market responds equally to equal buying power or talent or creative genius regardless of the ancestry, social philosophy, race, or religion of market participants. At the same time, however, the free play of market forces is oblivious to any concepts of what might be called "social justice." If the market does not value what one has to offer, one receives nothing in return; and if the result is breadlines, rioting, or political upheaval, that is of no direct concern to the impersonal forces of demand and supply.

Of course, our market economy today is nowhere near that free. In fact, a large part of the story of the 20th Century has been the quest to round the sharp edges of "free market" economics. That effort legitimized the idea that the state--as the expression of a society's political will--must always retain the right to overrule the market's informal decisions. Beginning perhaps with

the Sherman Act in 1890 and extending through the enactment of the federal income tax, the minimum wage and fair employment laws, occupational safety statutes, and a whole catalog of other laws, much of the work of the political system during the last 90 years has been directed toward using law to temper the power and efficiency of the free marketplace with notions of social justice. We are today, however, beginning to realize that, as more and more "extra-economic" demands are placed on the market, there is a corresponding loss in efficiency and effectiveness. The impact of that realization is visible in everything from Proposition 13 to the rhetoric concerning big government which you are likely to hear in any Congressional district across the country this Fall.

My point is not that we are about to or ought to return to the sort of unbridled private economic freedom which characterized the 19th Century, even if that were possible, but rather that we need to develop decision-making processes which are capable of recognizing explicitly the trade-offs involved in substituting "fairness" for "efficiency." And, in developing those processes, it may also be necessary to define more clearly the goals--the values--which those trade-offs

seek to attain. Significantly, the debate about the role and importance of the free market has been conducted in the past mostly in terms of economic institutions and seldom in terms of moral philosophy. Discussion of the merits of greater governmental economic control, for example, is centered around the distinction between private individuals and firms operating in a free market versus governmental agencies planning for the entire economy. As important as this distinction is economically, socially, and politically--and as large as it looms in popular jargon--it overlooks the question of goals, ends, and priorities--the basic moral questions involved in economic action. The problem is not merely who should make the decisions in the economy--private individuals and firms or governmental agencies--but what decisions should be made. The question of what should be decided is neglected in favor of the question of who should be the decisionmaker. This is due, in large part, to the historic perception of the free market philosophy as value neutral. We have become so accustomed to assume that a free market will coordinate random individual decisions and actions and channel them in the right direction that we concentrate on the mechanism of allocation but not on its content and results.

Egalitarianism

Before I pursue that thought, however, it is necessary to describe some of the attributes of egalitarianism and to compare and contrast those attributes to the characteristics of the marketplace.

The type of democratic process which our political system embodies tends to be egalitarian, consumption-oriented, and concerned with the common man and equal distribution of income and benefits. The marketplace, on the other hand, functions by incentive and reward, is hierarchical, rewards risk-taking, and fosters uneven distribution. Democracy is concerned with values --the free market is essentially value-neutral. The marketplace encourages and rewards self-interest, while democracy focuses on the common purpose. Democracy inclines towards compromise and conciliation. In its purest form, the phenomenon we call the "free market" is intolerant and uncompromising.

As a result, our political system is an agglomeration of conflicting interests which have to be balanced and reconciled. This reflects, as does the "free market," a value neutral theory. The

political system relies on a mechanism, the pressure of group interests, which is much like the theory of market competition. In both cases, the "market" is regulated by a countervailing force. Competition in one case--countervailing power in the other.

One consequence of the operation of this mechanism in the political arena is that our society as a whole, and business as a part of society, is being compressed between competing claims and goals, each of which could be achieved individually, but none of which can be achieved all at once, without adversely impacting the health of both the society and the market system. What our priorities should be, where our scarce resources should be applied, and what systems impacts we can accept are questions which must be resolved through the democratic process. Unfortunately, much of the debate often is characterized by an abundance of emotion and special interest and a shortage of reason and concern for the overall good. Self-righteousness, simplistic thinking, and ideological haranguing often take priority over balanced consideration.

We have moved inexorably toward becoming a special interest society. Too many lobbyists and interest groups today either care absolutely nothing about the national interest as long as they get theirs or blithely assume that getting theirs is in the national interest. This happens today in the name of egalitarianism--which has been misdefined to mean that everyone should get his or hers or its, and that value judgments should not be made. This fragmentation marks not only an absence of community --a lack of a sense of shared values--but also an absence of consensus--an inability to reach agreement despite differences.

The result has been an increasing polarization pitting those identified as supporters of the "public interest" against backers of "private interest" as if the two were neatly and simply defined and opposed. At its most complex, this polarization pits each pressure group's self-interest, labeled "public interest," in competition against all other "public" and "private" interests in the society. In reality, of course, the public interest is of broad dimension, encompassing not only environmental

protection but also energy conservation and job creation; not only assuring worker health and safety but also providing goods and services at a reasonable cost; not only consumption for today but also investment for tomorrow.

That concept--the need to consider the investment which our future will require--highlights another important consequence of the intersection of a market economy and an egalitarian political system. In both the economic and social spheres, the idea of unlimited and cheap resources has always been basic to our hopes and designs for the future. Any view to the contrary has been, and continues to be, rejected by many because it requires rethinking virtually all of the social thought of contemporary science and public policy. An egalitarian society can hardly contemplate limitations without realizing the great constraints that the concept entails; our national goals are inconsistent with such a concept. Yet, I believe that the constraints are not only growing in number, but that they may well portend a very basic change in our way of life. It is a virtual certainty that we are moving from an age of affluence to one of greater austerity.

The potential political and economic implications of that change are enormous.

The Role of Institutions

In addition to the power, efficiency, and neutrality which characterizes our market economy, and the accelerating trend toward egalitarianism with an attendant "right" to governmental benevolence which defines our politics, there is a third component which ought to be borne in mind in trying to predict and encourage the future vitality of our society. Over the past decade, the public has reflected a continuous and growing cynicism and distrust of our institutions. In fact, each of our major institutions has suffered a serious decline in public confidence.

Consider first public attitudes toward business. Opinion polls since 1965 have showed consistently that the reputation of both business generally and of particular industries and companies have declined, often precipitously. Only a minority of Americans now profess much faith in big companies. In 1968, for example, Yankelovich, Skelly, and White found that 70 percent of the respondents in a national survey agreed that business tries to

strike a fair balance between profits and the public interest. Only two years later, in 1970, that figure had dropped to one-third. It reached a low of 15 percent in 1976--an 80 percent loss of support over eight years--and stayed there last year. In a similar vein, pollster Lou Harris found that public confidence in leaders of major companies dropped from 55 percent in 1966 to little more than 20 percent--only one in five--in his most recent survey.

Yet, the public loss of confidence in business does not appear to involve a questioning of the fundamentals of the free enterprise system. In 1976, 74 percent of those responding to a Yankelovich survey disapproved of the view that the country would be better off if big business were taken over by the government. In 1977, Yankelovich found that the public disagreed by 52 percent to 16 percent with the statement that "The free enterprise system benefits the few." Over 90 percent oppose nationalizing any industry, and two-thirds

reject the idea of national economic planning if it means more government control of the economy.

Moreover, any conclusions that things are bad for U.S. business must be tempered by the realization that business, government, and labor all have suffered comparable losses in public esteem, and that government and labor unions show up in all polls as significantly less popular than business. It appears that major crises, such as the events of the late '60's and mid '70's, lower confidence levels in all institutions. For example, between 1966 and 1971, the Vietnam involvement, racial conflict, anti-war protests, and the rise of militant social movements seem to have worsened the perceptions Americans had of their country. According to the Harris poll, confidence in Congress, the press, the medical profession, the military, religion, the federal executive, organized labor, and major companies all declined in public esteem during this period.

Levels of confidence seemed to stabilize briefly in the early '70's, but then fell again between 1973 and

1976, a period marked by Watergate, the energy crisis, and the worst recession since the '30's. The first poll conducted after President Carter took office in 1977 suggested an increase in confidence compared to the prior year, but the recovery did not last. Between 1977 and 1978, the combination of continued high inflation and apparent concern about the President's ability to lead the country renewed what appears to be a crisis atmosphere. A Gallup survey in 1978 revealed lower levels of confidence in seven major institutions.

What does this trend mean? Most importantly, it reflects a major change in the terms of the social contract underlying the relationship between individuals and the institutions of our society. The change in essence is that, increasingly, the individual expresses less personal responsibility to institutions and less willingness or sense of obligation to sublimate personal needs or desires to those of others. At the same time, the individual expresses greater expectations of institutional responsibility to him--rising to the level of rights--and is willing and able to enforce these new rights, at least in part through the political process.

Clearly, the respect which our society accords to the individual and to his right to think, develop, and live as he chooses--with as little interference as is possible from government and other large institutions--is our chief strength. If anything promises to make us victorious in the competition with societies in which institutions are more potent because they can command greater subservience from individuals, it is the social, artistic, scientific, and cultural inventiveness which marks a nation which protects the individual. Yet, at the same time, our increasing zealously in fostering the rights of individuals against the demands of institutions exacts a price: The social institutions that have held us in balance internally have eroded. They were personal structures--of family, church, small community, face-to-face contact, and training by apprenticeship, for example. They have been replaced by impersonal, massive aggregates, which may be good schools for developing skills, but not for developing character. The scale has shifted, too. What was once a human scale and therefore the measure of a man, has become a scale of gigantism against which the man has shrunk in size.

In the business sphere, the separation of ownership and management is another part of the growing separation and distance between the institutions and the individuals. But this is not a special problem of the corporate sector of the economy--it is a phenomenon connected with mass society, mass organizations, with bureaucratization, and with the complexity of technology. All these factors seem to have generated doubts about the meaning of "representation." How can the representatives, be they elected or appointed public officials, leaders of trade unions, or corporate directors and managers, be made more responsible or more responsive to the needs, interests, and aspirations--to the "will"--of those they represent? But this is, again, value neutral reasoning. It does not ask whether the representation of the will accomplishes something that is "good" in the context of total society. That is left to the supposition that in society as a whole, as well as in the economy, an invisible hand will somehow bring about the "good" by the integration of individual and specific group self-interests. It assumes that representation --political, social, and economic--in a democracy requires merely that the representatives should faithfully represent the "will" of the represented, regardless of its content.

And that is an assumption which, in a complex, technological society in which the art of persuasion and public relations are highly refined, is increasingly open to question.

Stated differently, we must be concerned about the degree to which we politicize the economic decision-making process. Yet, that kind of politicization is exactly what is beginning to appear. Henry Simon, the economist, expressed a similar idea back in the 1930's:

"The petty warfare of competition within groups can be kept on such a level that it protects and actually promotes the general welfare. The warfare among organized economic groups, on the other hand, is unlikely to be more controllable or less destructive than warfare among nations. Indeed, democratic governments would have hardly so good a chance of arbitrating these conflicts tolerably as have the League of Nations and the World Court in their field."

Our society is, in my view, rapidly reaching the limits of its ability to arbitrate between the warring interest groups Simon envisioned.

Toward a Philosophy For Decisionmaking

Let me summarize the dilemma I have tried to outline thus far. Increasingly, the political processes in our society are injecting considerations of fairness, equality,

and social justice into our market system. This is entirely understandable. Indeed, if the operation of the market place were permitted to continue without regard to social consequences and impact, it is probable that --like much of the balance of the world--our society would have been reshaped by other forces during this century. But, just as society is no longer prepared to accept that the marketplace can be permitted to function in a value neutral vacuum, the assumption that a democratic society can and should simultaneously respond to and serve the demands and expectations of all special interests creates an equally unacceptable value neutral vacuum. We must somehow address both vacuums simultaneously, with a full appreciation of what it takes, philosophically, to keep our society evolving along a healthy course.

What do we do with this dilemma? One piece of the answer is to take stock, reflect upon our condition, try to understand how we got to where we are and where a future extrapolation would lead us. It may not sound like much, but if you believe in the democratic process and want to preserve it, a conscious understanding of our dilemma is the first and critical step towards

some form of resolution. The leverage of conscious understanding is so enormous that a slight shift in the intellectual climate can and will--over time--bring about enormous change, just as it has in shaping the major institutions of American society today.

Consider, on the other hand, the consequences of the failure to develop such an understanding, the price of embarking on the future without a coherent set of guiding principles. In the interests of equality and fairness, we are becoming so enmeshed in regulation that we may hobble, rather than reshape, our institutions --whether they be business, the community, the university, or whatever. Stated differently, while we permit the political process to impose necessary egalitarianism on the market, there is no corresponding mechanism which encourages the political process to consider the impact of its actions on the economy. For example, in my view, the high rate of inflation and low rate of capital formation which we are experiencing today can, in large measure, be traced to a tax code which

has tilted too far in favor of equality of after-tax income and too far against permitting risk-takers to retain the rewards of successful investment; to the inability to agree on an energy policy capable of reconciling the need to stimulate and reward conservation, development of oil and gas and the commercialization of alternate sources of energy, with the social dislocation of higher energy costs; to safety and environment statutes which have taken necessary, even essential, concepts and permitted them to be developed to absurd extremes; and to a host of similar political decisions premised on the assumption that the market system is indestructible and infinitely resilient. The error in that assumption is beginning to emerge.

Indeed, if we focus just on the shrinking purchasing power of the dollar, the problem becomes even more clear. Inflation--widely characterized as our most pressing economic problem--is primarily a political phenomenon. At bottom, its cause is the failure of our political system to contain the growth of social demands within limits tolerable to the market.

Rising social expectations are intrinsic and inherent to our society. Moderating the rate at which we undertake to satisfy them is, however, rapidly becoming a political necessity--if not a practical reality.

Similarly, in the interests of equality, our legal system subtly discourages legitimate risk-taking and fosters an attitude of "playing it safe." The costs of uncertainty and honest mistakes may be too high. We foster the notion that society is capable of "zero-defects" and that, for every malfunction, there must be, as a matter of principle, a redress and corrective action to assure that it never happens again. In addition to reducing risk-taking, this spirit of strict liability erodes the sense of personal responsibility and induces a tendency to blame "someone else" for our own failures, losses, insecurities, and incompetence.

It would be neat and convenient to have an accepted dividing line between where the market should be allowed to prevail and where government intervention is considered

appropriate and helpful. In the absence of a clear dividing line, it is essential to a healthy and free society that it have a process whereby the evolving social standards may be established and changed and that it have a set of shared values to guide that process. It is the lack of that process and the absence of that philosophy which must be corrected.

Law does not provide the solution. It lags rather than leads. Implemented by the political system, its primary role is to articulate the pre-established norms of a society. As Alexander Solzhenitsyn put it in his momentous Harvard talk, "Western society has given itself the organization best suited to its purposes, based, I would say, on the letter of the law." He went on to point out that the absence of an objective moral order leads to a legalistic system in which the goal is for each one to get the most out of the system for his own advantage. People have acquired considerable skill in using, interpreting, and manipulating the law. If one is right from a legal point of view, nothing more is

required. Nobody may mention that one might still not be entirely "right," and urge self-restraint or counsel renunciation of such legal rights. Solzhenitsyn concluded:

"I have spent all of my life under a Communist regime and I will tell you that a society without any objective legal scale is a terrible one indeed. But, a society with no other scale but the legal one is not quite worthy of man either.... Wherever the tissue of life is woven of legalistic relations, there is an atmosphere of moral mediocrity, paralyzing man's noblest impulses.... Life organized legalistically has shown its inability to defend itself against the corrosion of evil."

Unfortunately, however, we seem to have fallen into precisely this trap. We have become a litigious society where individuals and groups--in dramatically increasing numbers--bring suits to resolve issues which previously would have been settled privately--even to the point of a son suing his parents for not rearing him properly. A litigious society breeds consequences no one would intentionally bargain for--confusion, ambiguity, and lack of subtlety in the law with attendant

injury to institutional autonomy and leadership--and the creation of institutional paralysis while litigation winds its laborious way through the procedural maze likely to characterize such a society's judicial system.

If the legal structure cannot provide either the process or the philosophy we lack, where can it be found? What is required is that we bring a sense of responsibility, of values and morality, transcending those articulated by the law, to our economic and political decisionmaking, and that we insist upon and support leadership beyond the rhetorical. In an environment of value neutral reasoning, we must not overlook the fact that there is a role for inner normative restrictions on both institutions and individuals, restrictions based on ethics and morality. Such checks are a necessary compliment to external restrictions. Only the combination of an internalized value system and external constraints can assure that institutions act in a truly representative and democratic way.

We need some set of values held in common by our citizenry, values which give a certain shape to the institutions of our society--or at least a more effective process for arriving at consensus. For nearly as long as this country has been in existence, social critics have been warning us that we were living off the accumulated moral capital of traditional religion and moral philosophy. That legacy is depleted and needs to be replenished. It was the cultural and religious institutions which infused positive values. The basic belief was that a life led according to these values would maximize personal liberty in a context of social and political stability and would increase the likelihood that the exercise of everyone's personal liberty would add up to a decent and good society.

Today, that assumption is increasingly in need of rethinking. Economic growth, efficiency, and profitability alone are not adequate unifying values. Nor is the commitment to improvement in the human condition and in the level of individual freedom.

And precisely at the time when the trust and credibility of our leaders is at an all-time low and when survivors in leadership feel most inhibited in exercising the potentiality of power, we most need individuals who can lead. We need people who can shape the future, not just barely manage to get through the day.

In terms of business, for example, the leaders of our large private economic entities must accept and act on the fact that the social contract with business is changing to include an ever enlarging set of expectations beyond business's traditional role--such as affirmative steps to protect the health and safety of its workers, customers, and society at large, and to deal openly, honestly, and fairly--and covering the full spectrum of corporate activities from product quality to fair employment, from advertising to political activity. If business does not respond to this challenge voluntarily, the political processes will continue to see to it that there is an involuntarily response. But, as I have stated, government-imposed response is far less likely to be fashioned with

due regard to the health of the market place. And, similarly, consumers, environmentalists, unions, and other groups which have increasingly cast themselves in the role of business's opponent must recognize their own obligation to temper the demands of their interests with consideration for the health of the market system so vital to the overall objective of a strong society.

Conclusion

I want to conclude with the reminder that ours is a fragile society, but that fragility is its very strength and the source of sensitivity to the tensions which society brings to bear on its institutions. This is not the first time that American institutions have had to deal with new demands and with the creative tensions that come with the need to adjust. A free and open society will be characterized by on-going conflict; it must, in turn, also have the ability to compromise. One of the difficulties of our system is its imperfection, its inefficiency, its cost, and the disorderly way in which

it makes progress. That very disorder is the essence of our freedom. It makes it difficult, if not impossible, for us to arrive at a consensus as to what the "common good" might be. Yet, I believe that man is much better off in a society shaped by the interplay of public opinion and individual preferences than in one dominated by government establishment and enforcement of any one set of "official" values.

Similarly, a strong and viable economic market system --with substantial freedom--is as vital a component of our society as is the individual. Without our egalitarian goals, our economic achievements would lack purpose. And without economic achievement, our egalitarian goals would not be possible; egalitarian rights can exist only so far as the fabric of the society is strong enough to provide and protect them. Egalitarianism is the product, not the antithesis, of economic health.

If we accept, as I do, Daniel Boorstin's definition of democracy as a process and not a condition, a quest and not a system, then we can appreciate that we are in process and that the present time is not the climax.

We must, however, also accept the burden of individual responsibility which that fact carries with it. If each of us is able to succeed at the very difficult task of balancing what we draw from society against what we pay back, then--and only then--will the vitality and strength of both our market system and our egalitarian values be assured.

Thank you.