

Charles Koch
P.O. Box 2
Wichita, K

Dear Charl

This
I'm please
well this
to know t
of direct

Last
asking f
expired
In late
that was
the 1500

The
expired
mailing
it's fi
\$24,000
has com
LP's h
I'd gu
expand

I
off th
this y
is go

week

ANTI-CAPITALISM AND BUSINESS

CHARLES G. KOCH



information.
revive rather
ll be pleased
Koch Theory

rent members,
l to 2400
or a renewal.
nally dropped -
e list except

eturn); the
nd the Suter
o go before
e of nearly \$24,
y all of this
the state
memberships).
we'll have
east 7,000.

undraising effort
target of \$180,000
at the Koch Theory

an, was up this
the non-members

ABOUT THE AUTHOR

Charles G. Koch is President of Koch Industries, Inc., of Wichita, Kansas, and also serves as President and Chairman of the Board of the Institute for Humane Studies, Inc.

This address was presented at a seminar on "The Anti-Capitalist Mentality," held in conjunction with the annual meeting of the Institute's board of directors in Dallas, Texas, on April 27, 1974. In addition to Mr. Koch, the seminar leaders included the noted American economist and journalist, Henry Hazlitt, and Ronald Max Hartwell, distinguished professor of economic history at the University of Oxford.

Additional copies are available upon request from:

Institute for Humane Studies
1177 University Drive
Menlo Park, California 94025

ANTI-CAPITALISM AND BUSINESS

CHARLES G. KOCH

Anti-capitalist feelings in the United States are probably more virulent today than ever before. Yet the efforts to stem this challenge to our traditional economic values have been ineffective. It is crucial that we understand what is happening, why the defensive efforts have floundered, and what approach, if any, would succeed.

Shortly before he became Associate Justice of the Supreme Court, Lewis Powell, in his famous *Powell Memorandum*, described the current contempt for business. Powell noted that, in contrast to earlier periods in our history, anti-business sentiment was not being propagated merely by a few radicals. The present assault on the enterprise system is broadly based and rapidly gaining momentum and converts. Today's antagonists are numerous, well financed, and increasingly welcomed and encouraged by other elements of society.

Powell illustrated the tone, the character, and the intensity of the attack by citing statements of a few heroes of the young. William Kunstler, the activist attorney who is a popular speaker on campuses, proclaims: "You must learn to fight in the streets, to revolt, to shoot guns. We will learn to do all of the things that property owners fear." The self-appointed consumer advocate, Ralph Nader, declares that a great many executives of major corporations should be imprisoned for defrauding the public and willfully producing unsafe products. As proof of the potency of these attacks,

Powell cited a recent poll of students on twelve campuses; approximately half favored nationalization of basic industries in the United States.

It is easy to add to Justice Powell's evidence. A Harris poll has indicated that those having confidence in business leaders dropped from 55% in 1966 to 27% in 1973. Another poll showed that 63% of the American public believes that the oil industry, rather than the U.S. government or Middle Eastern politics, was primarily to blame for the energy crisis. But even more disturbing evidence of this adverse impact is the widespread support found today for new federal and local regulations of business practices.

With all due respect to the laudable purpose of the *Powell Memorandum*, it contained a fundamental error which was generally unnoted by businessmen themselves and which must be corrected if we are to combat the anti-business climate effectively. This error is the assumption that the most influential segments of the American business community actually believe in capitalism — in a free enterprise system — and that there currently exists a free market to be defended and preserved. Neither of these "facts" is correct, and defense of the free market will not succeed if we proceed on the assumption that they are.

The present economic system of the United States is a far cry from free enterprise. Who, after all, can deny that government today is deeply involved in virtually every aspect of business? Strangely, while it is largely agreed that there is a crucial need to defend the freedom of business in order to avoid *additional* regulations, the fact that free enterprise has already been crippled by government intervention is largely ignored. For some reason, many business spokesmen seem to believe that the existing system of

interventions represents free enterprise, whereas any new regulations would be socialistic. We should realize, however, that socialism includes not only the socialistic measures *proposed*, but the socialistic measures *already adopted*.

It is too late to avoid an interventionist economy; it is already with us, as the eminent journalist, Garet Garrett, pointed out thirty years ago:

There are those who still think they are holding the pass against a revolution that may be coming up the road. But they are gazing in the wrong direction. The Revolution is behind them.

We have confiscatory taxation, wage and price controls, commodity allocation programs, trade barriers, restrictions on foreign investments, so-called equal opportunity requirements, safety and health regulations, land use controls, licensing laws, outright government ownership of businesses and industries, and many more interventions. No advocate of free enterprise should confuse all of this with a free, capitalistic economy!

Undoubtedly we businessmen have been ineffective in our defense of the free market system. According to columnist Jeffrey St. John, American business is primarily in trouble because of intellectual bromides which it has substituted for a sound intellectual exposition of its point of view. To date, business has attempted to defend itself by taking a conciliatory attitude rather than exposing the fallacies in the anti-capitalist arguments. For example, when the oil industry and others are criticized for having "excess" profits, businessmen should argue that in a free market there is no such thing as excess profits — that without high profits there could be no signal to invest more capital in order to increase production to meet

the consumer demand that created the profits. Instead, industry has betrayed itself and sound capitalistic principles by pleading that its profits really are not all that high. Since the public could not be convinced, the critics complaining of the evil of excess profits have become even more credible.

The inept attempts of business to appease or hide from its popular critics contrast sharply with the effective offensive of its opponents. Their activity has included extensive research and writing in economics, history, and political thought; the systematic education of students as socialist scholars; and the use of every available means to maintain a constant barrage of scholarly sounding propaganda against business and free enterprise.

But the situation is actually worse than I have described, if that is possible. Not only are we ineffective in countering the anti-business critics; we ourselves have abetted the destruction of the free enterprise system.

First, we have allowed the free market to be blamed for fostering economic crises when, in fact, a free market did not even exist at the time the crises occurred. A comment on the Great Depression will illustrate this point. Those who believe that the pre-1929 economy, polluted by massive governmental manipulations of the money supply, was a free market, are defenseless against the charge that the Depression occurred because of unregulated market activity. Similarly, those who believe that today's oil industry operates in a free market cannot refute charges that the oil companies are responsible for the energy crisis.

Second, we have supported the very institutions from which the attack on the free market emanates. Although much of our support has been involuntary through taxes,

we have also contributed voluntarily to colleges and universities on the erroneous assumption that this assistance benefits business and the free enterprise system, even though these institutions encourage extreme hostility to American business. We should cease financing our own destruction and follow the counsel of David Packard, former Deputy Secretary of Defense, by supporting only those programs, departments, or schools that "contribute in some way to our individual companies, or to the general welfare of our free enterprise system." Any other course merely makes business a laughing stock in the academic community, generating respect from neither its few friends nor its many enemies.

Third, we have accepted the concept that the corporation has a broad social responsibility beyond its duty to its shareholders. But, as economist Milton Friedman points out, "The great virtue of the private enterprise system is precisely that by maximizing corporate profits, corporate executives contribute far more to the social welfare than they do by spending stockholder's money on what they as individuals regard as worthwhile activity." Yet the businessman has come to believe that "he is defending free enterprise when he claims that he is not concerned 'merely' with profit, but also with promoting desirable 'social' ends. When the businessman does this, he is in fact preaching pure and unadulterated socialism."

This is not to say that businessmen have no responsibility beyond immediate profits. We have an obligation to fight for the restoration of the free market and the survival of private enterprise. Just as the prudent businessman must insure the company's major facilities against physical destruction, so he has an obligation to his shareholders to use his time and the company's money to insure against the political loss of any opportunity to make a profit.

Finally, in perhaps our most grievous misstep, business has consciously assisted the government in destroying the free market. Historically, businessmen have been at the forefront of those bent on destroying free enterprise. As Professor Gabriel Kolko noted in his book on the Progressive era, *The Triumph of Conservatism*, certain key businessmen at the turn of the century were among the major initiators of federal intervention in the economy. Kolko also observed that it was not the existence of monopoly that caused the federal government to intervene in the economy, but the lack of it. Several other scholarly studies have confirmed the fact that monopolies cannot be maintained by private means alone. As businessmen came to realize this, on many occasions they simply turned to the government for special privileges and protection from competition.

The process apparently still continues. Hence, those who blame the oil industry for the energy crisis are correct in the sense that the oil industry did encourage misguided government regulation. Over the years, for instance, the industry sought oil prorationing and import quotas, and it approved the 1971 wage and price controls. Subsequently it has called for federal allocation programs and gasoline rationing.

As I perceive the situation in which the pro-capitalist businessman finds himself today, there are basically four ways in which he can fight for free enterprise — through education, through the media, by legal challenges, and by political action. As a believer in the market economy, I appreciate the benefits of specialization and the division of labor. Therefore, in general, I recommend that each businessman do what his own talents and resources allow him to do best. I do maintain, however, that the educational route is both the most vital and the most

neglected. As Professor F. A. Hayek has acutely observed, "Unless we can make the philosophic foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imagination of our liveliest minds, the prospects of freedom are indeed dark."

By education, I mean basic scholarly research and writing which will provide us with better understanding of the market system and better arguments in favor of this system. We desperately need to develop additional talent capable of doing the research and writing that undergird the popularizing of capitalist ideas. Business has so neglected this approach that when, for example, a project to study free-market ideas is funded, the biggest problem is finding someone willing and able to do the work. While business has sometimes shown an interest in establishing appropriate chairs at universities, there is so little first-rate talent available that this effort has often resulted merely in a shift of one of the few free-market scholars from one university to another.

Many things can be done to develop this talent: financing fellowships for graduate students to work under teachers sympathetic to the free market; sponsoring conferences where scholars and students gather to discuss the market economy; arranging publication and distribution of scholarly books; and insuring that able students can find attractive opportunities as teachers or research scholars. But business must make its funds available for such purposes and use its influence to provide openings. I believe that this long-term, educational approach is absolutely necessary to restore the free enterprise system.

Nevertheless, organizations like the Institute for Humane Studies that are active in this educational effort have had trouble raising funds from business. This puzzles me

because education is by all odds the most economical and productive of any of the ways we can pursue. The educational method enables the businessman to work effectively without exposing himself to the same public criticism that the other methods, particularly politics, seem to evoke. Perhaps we businessmen have overlooked education because we have been too impatient and thus failed to recognize that the usual business standards for returns on long-term investments apply in this area as well.

Unlike educational programs that produce new advocates, the alternative approaches — utilizing the media, the courts, and politics — fall in the category of self-defense. But self-defense is necessary, and I recommend that it be done aggressively. However, to do this effectively, business must keep its own house in order. Its defense must not backfire and make it even more vulnerable. Thus, we cannot speak out for free enterprise and at the same time lobby for special privileges and limits on competition. This issue may create division within the business community, but it should be faced up to so that, if necessary, the lines may be properly drawn.

We should utilize the media in speaking out in our defense, but we should make a sound intellectual exposition of our point of view. There should be no hesitation to attack the enemies of the free market, such as the Naders, as aggressively as possible. And we must appropriately "reward" the media when they promote the free market, but withdraw support when they attack it.

Concerning the use of legal challenges, Professor Henry G. Manne of the University of Rochester advises that "the business community utilize available techniques of legal adversary proceedings to announce publicly and vigorously, both as individual companies and through associations, that they will not

cooperate with the government beyond the legally compelled minimum in developing or complying with any control programs." He urges businessmen to "publicize as widely as possible the inevitable inefficiencies, mistakes, and human miseries that will develop with these controls" and adds that "businessmen should help the public understand that morality, in the case of arrogant, intrusive, totalitarian laws, lies in the barest possible obedience and in refusal to cooperate willingly beyond the letter of the law." Examples of non-cooperation and successful resistance abound, such as the recent independent truckers strike and the gasoline dealers shutdowns. But we should also consider the possibilities of strategically planned litigation and administrative procedures.

The fourth method, political action, has been the most widely used by businessmen and, while seemingly successful in some cases, has overall proved least fruitful. I believe the basic reason for this failure is that politicians reflect what they believe to be the view of their constituents, and this majority view has been formed over the years by socialistic educational efforts.

For limited objectives, political activity can be effective and should be pursued. This could include, for instance, litigation to affect bureaucratic behavior, informational programs for Washington lobbyists, and perhaps educational seminars for administrative and legislative staffs. Still, this is necessarily a limited program and should not be considered a panacea.

Further, we must recognize that a direct political approach contains certain inherent dangers. Past history indicates that, once a businessman has gained political influence, he typically attempts to use it to gain an advantage over his competitors. When this happens, and at times when it doesn't, a strong public reaction against business devel-

ops. Thus, political activity is less cost-effective than the other approaches, and businessmen should allocate resources accordingly.

The important strategic consideration to keep in mind is that any program adopted should be highly leveraged so that we reach those whose influence on others produces a multiplier effect. That is why educational programs are superior to political action, and support of talented free-market scholars is preferable to mass advertising.

The development of a well financed cadre of sound proponents of the free enterprise philosophy is the most critical need facing us at the moment. And this task is not impractical. As the *Powell Memorandum* points out, "business and the enterprise system are in deep trouble, and the hour is late." But the system can be restored if business will re-examine itself and undertake radical new efforts to overcome the prevalent anti-capitalist mentality.

The Institute for Humane Studies was founded in 1961 as an independent center to foster basic research and advanced study for the strengthening of a free society. Through conferences, fellowships, publications, and related activities, the Institute seeks to serve scholars in all the humane sciences who are interested in the principles of liberty.

Interested persons in education, business, and the professions throughout the world share in its work and participate in the programs it sponsors.

nation.
e rather
e pleased
Theory

members,
2400
renewal.
dropped -
st except

); the
e Suter
before
nearly \$24,
of this
state
ships).
I have
7,000.

ising effort
et of \$180,000
e Koch Theory

as up this
non-members