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FROM THE HALL OF MIRRORS TO THE FLOPPY DISC

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Public policy in a democracy results from the complex interaction of what people think an economic and polical system should be, and what they believe it to be at the moment. It is the disparity between what they conceive of as the "ideal" and what they perceive as "real" that fuels the engine of social change. Both concepts, the ideal and the reality, have always been influenced by the pamphleteer or his equivalent, which nowadays may range from the studies of a respected think-tank to the lines and lyrics of a rock song at a Jane Fonda concert.

The difference between then and now is that the incendiary words of Thomas Paine were read by a few hundred people, but the staged TV demonstration at a nuclear plant enters 50 million living rooms on the 7 o'clock news with devastating effect.

The impact of this continuous flow of facts, fiction, data, information and misinformation has had a profound effect on American society in general and on business in particular. We have become the first human society to live in a state of what George Gallup has called "a continuous audit."

In this age of unlimited data proliferation, it is now always possible to look back and find a piece of data somewhere in the memory banks to "prove" that somebody "knew" something ~~years~~ ago and failed to act upon this information responsibly in violation of some law or regulation. As long as the trail is wide and long and prolix, which the computer assures it will be, commentators, lawyers and regulators can dig through a billion pieces of paper, or their electronic equivalents, as they are currently doing in the IBM and American Telephone and Telegraph antitrust suits, until it becomes statistically inevitable that any given proposition can be "proved" after the fact. There is always a piece of data that can be produced and, taken by itself and in hindsight, used to prove that the manager or policy maker has committed an inexcusable oversight.

This data may range from the presence of a Russian brigade in Cuba that appears and reappears like the Cheshire Cat sitting on an international limb, to a loan or investment that goes bad, thereby proving to the critics that it never should have been made in the first place. This continuous audit cannot fail to have a significant and inhibiting effect on the way we conduct our affairs.

Just as we find it increasingly hard to determine when we know something, so it is also harder to decide what we know. The line between "information" and the real things about which we need to be informed, in Professor Caves's phrase, has become blurred. Indeed it can be argued that the importance of the legal and regulatory paper trail has made the manual of procedure more important than the act itself. We resemble the line from "My Fair Lady," when Professor Higgins says that "the French don't care what you do, actually, so long as you pronounce it properly." We have become so entranced with pronouncing it properly in our electronic data that we sometimes forget what it is we are trying to do.

The production of statistics has become an end in itself.

It might add to our perspective a bit if we reminded ourselves of where we got this word, "statistics," in the first place. It was given to us by a Scottish gentleman named Sir John Sinclair, who imported it from Germany in 1791 and used it in the title of his book, A Statistical Account of Scotland. The German term, he tells us in his preface, did not quite describe his own purposes, because, whereas he himself was interested in "the quantum of happiness enjoyed by the inhabitants and the means of its improvement," in Germany the word was confined to matters concerning the political strength of the state. A case can be made that the original German concept of statistics is now working its way into our country on the back of the technologically-driven data explosion.

Underlying the whole process is, of course, the revolution that began with the first electronic computer in 1946--a computer that belonged, by the way, to the Ordinance Corps of the United States Army. Every item in an inventory today leaves a paper trail and an electronic trail--of research, development, design, manufacture, distribution, marketing, and accounting. And we find the laws and regulations concerned more with assuring a clearly market trail, than with the final results. A single number, which appears to be finite, is itself the end result of many guesses and can be--and often is--communicated world-wide in minutes. We have reached the point where the statistics of GNP, or the composite index of leading indicators, when released, can cause a major rally or slump on Wall Street.

In this situation, the index is not a statistical report about what is happening in the world: publication of the statistic is the happening, even though the probability is that the number will be revised in a few weeks. No business executive prior to the Second World War had to live in such an environment.

Governments have fared no better. There is an old adage that "what you don't know can't hurt you." That would be a precarious rule to follow; nevertheless, there is more than a little truth in the remark of a former British Chancellor of the Exchequer that there was no balance of payments problem in the 19th Century because there were no balance of payments statistics. In fact, nobody ever attempted to work out the statistic before the 1930's. The oldtime policy makers only dimly realized that it might theoretically exist. They looked instead to the movement of gold reserves, and if this was creating a problem, it was usually something that could at least wait until after lunch.

Today, any government in the world that announces a change in its fiscal or monetary policies can find out in a matter of minutes what the world thinks of the development by watching the crossrate on their currency, which alters almost instantly in the currency markets in London, Zurich, or Tokyo. The old gold exchange standard of yesterday has in fact been replaced by the electronic information system of today, which can be more or less harsh than the gold standard, but in the end is just as sure and just as certain.

The incessant production of new data and its instantaneous communication throughout the world thus creates a paradox: information, which we have always viewed as the thing that eliminates uncertainty, now increases everybody's feeling of insecurity because of the failure to convert data into knowledge.

There is an insatiable demand both in public opinion and in the halls of government, to "get things under control." If we subjected our health to the same process, we would take our blood pressure every hour. This drumbeat of data could lead us to the conclusion that we seem to be very sick men and women, when in fact we are only measuring the normal rhythm of life.

The resulting hypochondria is providing a ready market for the peddlers of Miracle Cures in bottles of all shapes and sizes. What they have in common is almost always a label that reads: "To be taken with large doses of government intervention."

The power of the computer has made possible a flow of data about any perceived "problem" which must then be "solved" by legislation or regulation. We have now reached the level of legal sophistication where it is probable that each of us is now in violation of some law or regulation--we just don't have enough time and money to find out which ones. This state of affairs gives a prosecutor the selective power to accuse anyone of violation of law, usually on page one of the newspapers.

Since a new set of numbers is always being produced somewhere in the world, it is only a matter of time before a law or regulation appears requiring their publication regardless of their utility. Under the banner of protecting the small investor, the SEC now requires reams of data that are so comprehensive that no small investor could possibly get anything out of them. It is clear, upon reflection, that the requirement to produce these data is part of an effort to control the governance of American business, rather than any concern to protect the small investor.

The mere production of all this data affects business decisions no less than government policy: in fact, they feed on each other. Thousands of pages of data are regularly produced with an eye solely to influencing a possible business decision or a government policy and are instantly communicated all over the world in order to measure the reaction. All of this is done without a brick being laid or a dollar changing hands.

This chain of events is pushing business back to an old discredited form of economic policy, which has now been dressed up in new mod fashions which appeal to some modern business managers. It has been packaged most attractively by the President of the United States, who has referred to it in a State of the Union address as a partnership between government, business, and labor.

For such a partnership to exist, we would have to adopt the view that business has become a separate class with separate interests which are independent of the interests of its owners and its employees. We would also have to accept the proposition that the almost three million workers in the Federal government are no longer the servants of the citizens as envisioned by our Constitution, but that they, in effect, also have become a separate estate with interests distinguishable from those of the people whom they are elected or appointed to serve.

Once one swallows that premise, the logic moves on to argue that there has been a separation of ownership and management of the American corporation. This, in turn, is used to make the argument that the corporation has a life of its own, independent of its owners and their interests and doubt is thus cast upon the corporation's legitimacy. Data is then produced to show to the prosecutor's satisfaction that corporate power to influence output, employment and the income of millions of Americans is growing year by year. The historical justification for private ownership of the means of production, namely that it would produce, via the force of competition in the marketplace, th e highest social product, appeared to have been undermined. The length of the road we have come can be measured by two incidents. The flap caused in 1953 by the misquotation of Charlie Wilson allegedly saying what was good for General Motors is good for America, has now been enshrined as public policy by the

96th Congress for Chrysler Corporation.

Private ownership has become so subverted that the employees--including the professional managers--have in effect become wards of the state. Indeed the bailout of Chrysler Corporation by the Federal government is a denial of the right of private owners to fail, which follows logically the denial of the right to succeed. If all this is accepted, it becomes clear that so-called excess earnings are now justifiably claimed by government. The chain is complete in which the government has transferred the wealth of savers and equity holders to others in our society. Since markets cannot be fooled over time, this massive income transfer is reflected by the fact that the real rate of return on the Standard and Poors common stock index has been negative since 1967.

The litany of what we have done to effect this transfer of wealth from the saver to the spender would make Colbert green with envy. Dean Mecking of Rochester put it this way: "It includes what products can be marketed, how they can be advertised, what the terms of sales can be, who can be hired, what kinds of working conditions must be provided, what kind of fringe benefits are allowed, how land can be used, what financial reports must contain, who can be on the board of directors, whether plants can be closed, whether production lines can be altered and whether new production techniques can be introduced."

All this adds up to a kind of modern mercantilism in electronic clothing which is packaged as "partnership." However flattering this "partnership" role might seem to the businessman, and it is very attractive to some, there are at least two things wrong with it. First of all, it contradicts the basic American principle that our society is a collection of individuals, not institutions, and that the basis of our political liberty is individual liberty. Carried to its logical conclusion, this view of society must ultimately replace the idea of the individual as the center of our society with the notion of the standestaat. The second thing wrong with the partnership concept is that, to the extent thatit succeeds, it will be an economic disaster. It replaces economic competition among various entities with political competition. It creates an environment in which a corporation's well-being depends less and less on its ability to produce a saleable product or service and more and more on its ability to secure a favorable interpretation of some obscure subparagraph in the Federal Register.

Corporations are the economic agents of the people just as surely as governments are their political agents. The failure to preserve this distinction between the proper role of economic agents and political authorities threatens to politicize all economic decision-making. To the extent this occurs, it will, and in fact already has begun to, impair fundamentally the capacity of the business system to provide jobs and raise productivity. Once the economic marketplace is replaced by the political process, what Franklin Roosevelt called the "great arsenal of democracy" will be replaced by a shrinking pie with special interest political groups fighting over their share. The state will become the receiver in bankruptcy of impotent individual responsibility.

In the short run, some corporate managers are tempted to participate in the political game to curry favor, and many have done so in the belief their enterprises' survival depends on it. But the longer term result of this business/political strategy is to bring all decisions concerning output, employment and resources allocation to Washington.

Once this is achieved, one of the most powerful effects of the resulting flood of regulations and laws and publicity is to create a powerful incentive for us all to avoid risk of any kind. Indeed, risk has already become the regulators' new four-letter word, and is now used as a pejorative, as in risky policy or risky investment even though these phrases are redundant.

This process tends to nullify the capital value of organizations designed to make economic decisions on economic grounds. Although there are undoubtedly many reasons for the significant decline in the real market value of American corporations, this phenomenon surely has to rank as one of the most important.

We have revived Colbert's ancient and disastrous "system of restraint and regulation" with an efficiency beyond anything he could have dreamed or imagined. Today it is even more dangerous because we have something Colbert lacked. We have computerized data. The combination of mercantilist ideas with the torrents of information that now inundate American society may be a greater threat to the survival of our system of democratic capitalism than the Great Depression or the Second World War.

Oliver Wendell Holmes once remarked that there are times when "we need education in the obvious more than investigation of the obscure." What needs to be made obvious today is that the solutions concocted by Colbert and Louis XIV will not work any better among the computer banks than they did in the Hall of Mirrors in Versailles.