

# The Public Research Institute



December 23, 1981

Would you like to get  
in touch with Paul  
Feldman next time you  
are in WA?

*See Gout file*

Dr. C. T. Whitehead  
P.O. Box 9244  
Los Angeles, California 90009

Dear Tom:

When what my friends call my "seminal" paper was published in the JPE, I expected critical acclaim and possibly a Nobel Prize! It seemed to me that the world was waiting for someone to come along and explain what government was all about and, by God, I did it.

Undaunted by the underwhelming response, I am ready to try again, this time telling the waiting world what government is not about. It's funny; a few sophisticated types know how important this issue is but, to most people, it is a grand case of ho-hum. If I get a prize, it will be for inducing mass narcolepsy.

Lucky you; I count you among the sophisticates. Let me know what you think about this. If you have any suggestions about people to talk to in looking for support to delve deeper into the subject, let me have them.

Call me when you come to Washington.

Sincerely,

*Paul*

Paul Feldman  
Director

PF:bd

Enclosure

CONGRESSIONAL ELECTIONS AND LOCAL FEDERAL SPENDING

Paul Feldman  
James Jondrow

December 18, 1981

The Public Research Institute  
2000 North Beauregard St.  
Alexandria, Va. 22311

# ABSTRACT

It is often assumed that changes in federal spending in a congressional district affect the incumbent's prospect of reelection. This study tests that assumption, using cross-section data to analyze voting for candidates for election to the U. S. House of Representatives in 1976, 1978, and 1980.

While variables reflecting party affiliation, the incumbent's vote in the last election, and scandal associated with incumbents are important determinants of the vote, changes in both local federal spending on construction and federal civilian employment since the last election are shown to have no effect on the share of the vote going to incumbents. They also have no effect on campaign expenditures by either challengers or incumbents.



## CONGRESSIONAL ELECTIONS AND LOCAL FEDERAL SPENDING

Paul Feldman and James Jondrow

Any advisor to government soon learns an ineluctable truth: it is hard to get government started doing something, but once it starts, it is even harder to get it to stop. Budget officials refer to "uncontrollable" spending, i.e., spending that is determined by existing legislation, as if changing the legislated mandate is unthinkable. In fact, the usual response to suggestions that the budget be reduced for any existing program is "politically impossible."

It takes no great imagination to suggest that the source of political impossibility is the effect that cutbacks in federal spending would have on the reelection of incumbent Congressmen. In fact, Mayhew suggests that a Congressman's every action can be assessed in terms of its effect on the vote. He begins his book on Congress:

"The discussion to come will hinge on the assumption that United States Congressmen are interested in getting reelected—indeed, in their role here as abstractions, interested in nothing else."\*

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The authors thank Buck Burgess of the Community Services Administration (CSA) for his extraordinarily generous help in securing data on federal spending, and the Interuniversity Consortium for Political and Social Research (ICPSR) for providing data on elections.

\* Mayhew [5, p. 13].

Even though it seems obvious that federal spending has important electoral effects, there are some who are skeptical. The skepticism seems to vary directly with the proximity of one's place of work (in Washington, D.C.) from Capitol Hill. Lobbyists and Congressional staffers express strong doubts; members of the bureaucracy in the executive branch admit that local spending is probably important, while those who do not work for the government, and professional researchers in particular, deem it so self evident that they can hardly imagine that it hasn't been demonstrated over and over again in careful statistical studies. Empirical research has generally not addressed the issue:

"In the literature on elections, the 'American voter' is a presidential voter. Most of what we know...is from that atypical contest. Political scientists, like the voting population as a whole, have shown neither great interest in, nor much attention to, races other than the presidential one....

Some work, of course, proceeded in the study of congressional elections...to identify critical variable affecting the vote: party identification, incumbency status, candidate and issue evaluations,



as well as issues of presidential voting...campaign  
spending."\*

This paper is about the political value of local federal  
spending. We examine elections to the U.S. House of Representatives to  
see how incumbents are affected by year-to-year variations in spending  
within their Congressional districts. In particular, we concern our-  
selves with voting outcomes, campaign spending by candidates for the  
U.S. House of Representatives, and local spending by the federal  
government.

The basic hypothesis can be stated simply:

An incumbent Congressman's reelection prospects are  
positively related to changes in federal spending in  
his district.

To test this hypothesis, we focus on two relationships:

- o The Vote Equation: The dependence of the incumbent's  
vote on changes in local federal spending

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\*Hinckley [1] p641

- o The Campaign Expenditure Equation: The dependence of campaign expenditures on local federal spending.

These relations are examined using cross-section data from individual districts for each of three elections, 1980, 1978, and 1976.

#### The Vote Equation

For empirical estimation, we express the incumbent's share of the vote as depending on two sets of variables: (1) local federal spending and (2) a number of control or standardizing variables. We now turn to a discussion of the first set.

#### The Federal Spending Variables

The federal spending variables are:

- o The change in federal construction since the last election
- o The change in federal employment.

Each change is divided by total employment in the district to account for districts of different sizes.

"Construction" is closest to what is typically considered pork-barrel spending. It includes highways, irrigation construction, office buildings, construction of laboratories, etc.



"Federal civilian employment" is intended to represent the "presence" of the federal government in a district, as distinct from spending. It includes Social Security employees, OSHA inspectors, air traffic controllers, etc. It also includes all civilian employees of the Defense Department (DoD), so the measure will be influenced, to some extent, by the existence of military bases\* in the district.

Reductions in spending may be more important than increases. Schultze\*\*, for example, claims that to "do no direct harm" is a major constraint on government action. To him, it seems more powerful than "do direct good" as a determinant of behavior. If so, there may be a discontinuity in the effect of spending changes on the vote, so that negative changes should be weighted differently from positive changes.

#### The Control Variables

These include (1) the vote in the previous election, (2) the growth in per capita income, (3) the party of the incumbent (Republican or Democrat), (4) the tenure of the incumbent, and (5) whether the incumbent is in his first-term.

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\* In the estimation, we experimented with separate measures of DoD and other federal civilian employees.

\*\* Schultze [6].



The vote share in the last election describes where the candidate stood two years earlier. The other variables describe how much the candidate's position has changed since then. For instance, the coefficient on first term dummy measures how much the candidate's expected vote is increased simply by the fact of his incumbancy. Similarly, tenure describes how the candidate's expected change in vote is modified by extra years in office. Tenure may be a proxy for name recognition. It may also measure services provided, however; if higher tenure makes a Congressman more powerful, he can use his power to direct spending to his constituents.

The growth in per-capita income in the district is a direct measure of current economic conditions affecting the constituency. It is a time honored variable in election studies, but one with an inconsistent track record. We may however provide new information: our variation is cross sectional; most earlier studies of Congressional elections\* are aggregate, time series studies, where income changes are measured at the national level.

The party variable is an indicator of changes in the underlying political preferences in the district. It also is one place to look for structural changes--as may have occurred in 1980.

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\* See, for example, Kramer [4], Stigler [7], and Kinder and Kiewiet [2].

All the variables, along with their acronyms, are summarized in table 1.

TABLE 1

VARIABLES IN THE ANALYSIS OF VOTING AND CAMPAIGN SPENDING<sup>a</sup>

V	= vote for the incumbent divided by total major party (Republican and Democrat) vote
V(-1)	= incumbent's share of the major party vote in the preceding election
APCI	= change in per capita-income in the district since the last election
Tenure	= years since the incumbent was first elected
First-Term	= dummy variable = 1 if incumbent was in his first term, 0 if beyond the first term
Republican	= dummy variable = 1 if the incumbent is Republican, 0 if Democrat
Scandal	= dummy variable = 1 if the incumbent's personal behavior was officially questioned since the last election
ΔConstruction	= change in federal spending on construction since the last election divided by total (including government) employment
ΔGovt. Employ.	= change in federal civilian employment divided by total employment
ICX	= campaign expenditures by the incumbent
CCX	= campaign expenditures by the challenger

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<sup>a</sup> Sources of data and more detailed description of the variables are presented in the Appendix.



### Estimation of the Vote Equation

We estimated the vote equation only for those districts in which there was an incumbent running. Aside from districts with no incumbent running, observations were also dropped for reasons having to do with certain characteristics of the data or of the election itself:

- o Campaign expenditures were not reported
- o The vote for the incumbent exceeded 95 percent\* (to exclude uncontested elections)
- o The vote for the incumbent in the preceding election exceeded 80 percent (also to exclude uncontested elections)
- o The Congressional district included the state capital.\*\*

The coefficients we report from our regressions are so-called "Beta coefficients"; i.e., they are the coefficients that result from measuring each variable (dependent and explanatory) in units of standard deviations from its own mean. The reason for deviating from "natural units" is that it is not clear what is a small or large change. With Beta coefficients, we are considering the effect of a standard or typical change, one standard deviation from the mean.

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\* Although we recognize the possible biases associated with screening on the dependent variable, these were far outweighed by the necessity of getting rid of districts where the election was, in essence, uncontested.

\*\* Some local spending reports attribute all spending in a state to the state capital rather than giving the actual allocation by Congressional district. See Appendix A.

We employed a different normalization for the dummy variables since a deviation of one standard deviation is not feasible. Deviations from the mean must lead to values of the variable exactly equal to 0 or 1. Hence, we left the dummy variable in its natural form. We did put the dependent variable in standard-deviation units. Hence, the coefficient on a dummy variable is the number of standard deviations the dependent variable moves as the explanatory variable moves from 0 to 1.

The estimates for 1980, 1978, and 1976 are shown in table 2. We note at once that the variables measuring changes in federal spending do not have much effect. The coefficients are smaller than those for the other variables and tend not to have the "right" sign, i.e., more spending or employment seems as likely to decrease votes as to increase it. The t-values are far from significant, suggesting that even the small observed effect could easily have occurred by chance.

By contrast, the standardizing variables seem quite powerful. The lagged vote has a strong effect. The first term dummy, too, has a strong effect that we interpret as reflecting the improvement in the incumbent's security due to the fact of his incumbency. Simply the fact of incumbency is worth a lot. Among all cases in the sample, the average winner's share of the vote when the winner was not incumbent was 56 percent; the average winner's share when the winner was incumbent was 65 percent. The tenure variable has a negative sign; aside from the fact of incumbency, time in office does not seem to help. We found this



TABLE 2

THE EFFECT OF FEDERAL SPENDING ON CONGRESSIONAL  
ELECTIONS: 1980, 1978, 1976

Explanatory Variables	Dependent Variable (V)					
	1980		1978		1976	
	$\beta$	t	$\beta$	t	$\beta$	t
V(-1)	.65	10.01	.65	11.46	.78	11.43
$\Delta$ PCI	.13	2.31	.02	0.36	-.02	-0.48
TENURE	-.07	-1.02	-.12	-1.90	-.06	-0.93
FIRST TERM	.63	4.03	.13	0.86	.55	3.05
REPUBLICAN	.57	5.07	.54	4.94	.58	4.55
SCANDAL	-1.40	-3.66	-1.65	-4.65	-1.40	-3.03
$\Delta$ CONSTRUCTION	.07	1.16	-.03	-0.49	-.09	-1.63
$\Delta$ GOVT EMP	-.01	-0.19	-.01	-0.12	-.03	0.51
$R^2$	.49		.44		.41	
Adj. $R^2$	.46		.42		.39	
N	194		221		229	

surprising, but retained the tenure variable on the grounds that, theoretically, it should be included.

The Republican dummy had a positive effect in all three years --despite Watergate. The increase in per-capita income had an effect in the 1980 regression, but not before. The scandal variable had a powerful negative effect in all those elections.

Taken together, the strong showing of the standardizing variables suggests that it is possible to explain election results, which makes it all the more interesting that federal spending and employment do not have much to do with these results.

#### Checking the Sensitivity of Estimates to Specification

The vote equation was estimated in a number of different forms (using 1980 data) to test specific hypotheses and to assure its robustness. First, the spending/employment variables were entered singly rather than together. They were insignificant singly just as they were together and the coefficients on the remaining variables remained almost the same.

Similarly, we dropped the variables measuring political power within Congress: tenure and FTD. The reason was that these might capture some of the influence of spending. However, the spending



variables remained insignificant, singly and together. We also split spending into positive and negative components to test the hypothesis that cuts have a special influence. The components were insignificant. All in all, we found no evidence that, for a Congressman, securing local federal spending for his district or protecting against spending cutbacks, is a useful way to pursue reelection.

Finally, we changed the dependent variable using the logit transformation to account for the fact that  $V(t)$  is bounded. Again, the relative effects of the different right-hand-side variables remain almost unchanged.

#### Campaign Expenditures and Votes

There are two possible relations between campaign expenditures and election results: (1) Challenger and incumbent expenditures are each independent determinants of the vote. We might expect the challenger's to be the stronger effect; he is buying recognition, which the incumbent already has. (2) Campaign expenditures are an indicator or premeasurement of the result; a candidate that looks like a loser will not receive much financial support--his expenditures will be low.

Econometrically, the relation between campaign expenditures and votes seems to be a case of simultaneous determination. Unfortunately, simultaneous equations methods do not seem promising here. The system

is not identified: we are not aware of exogenous variables that determine campaign expenditures, but not the vote. Instead, we are thrown back on estimating reduced forms, i.e., the dependence of votes and campaign expenditures on the exogenous variables: spending and the standardizing variables.

The reduced forms discussed earlier are our basic results. Nevertheless, it may help in the interpretation of some of the results to see how campaign spending interacts with votes, even if the causation is unclear. Accordingly, table 3 presents the vote regression for 1980\* with ICX and CCX entered as right-hand-side variables.

The coefficients in this regression are similar to those in the original regression. One of the new variables, CCX, has a strong negative effect. ICX has a more modest, positive effect. The interpretation is that when campaign spending is high on both sides, the effect on the incumbent is negative; he would benefit from a quiet campaign. Anything that increases campaign expenditure on both sides threatens the incumbent.

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\* We used 1980 to test the effect on our results of a number of alternate specifications.



TABLE 3

THE EFFECT OF CAMPAIGN SPENDING ON THE 1980  
CONGRESSIONAL ELECTION

Dependent Variable (V)		
<u>Explanatory variables</u>	<u><math>\beta</math></u>	<u>t-value</u>
V(-1)	.44	(6.87)
$\Delta$ APCI	.09	(1.96)
TENURE	-.01	(-0.14)
FIRST TERM	.49	(3.59)
REPUBLICAN	.35	(3.35)
SCANDAL	-1.29	(-3.89)
$\Delta$ CONSTRUCTION	-.02	(-0.42)
$\Delta$ GOVT EMP	.01	(0.16)
CCX	-.51	(-7.84)
ICX	.14	(2.34)

$R^2 = .63$   
 Adj.  $R^2 = .61$   
 N = 194

## THE EQUATIONS FOR CAMPAIGN EXPENDITURES

Separate equations were estimated for campaign expenditures for the incumbent (ICX) and for the challenger (CCX). In each equation, the right-hand variables are those used in the vote regression. ICX and CCX were not entered as determinants of each other; there is no way to disentangle the direction of effect. It will turn out, however, that the interaction helps explain the regression results. The results for the three elections are presented in table 4. As before, the coefficients are Beta coefficients (t-values are in parentheses).

The variables that affect ICX and CCX in the same direction illustrate the interaction between ICX and CCX. The pattern can be readily understood, for example, if CCX is a determinant of ICX or vice versa. Indeed, there is a strong partial correlation between CCX and ICX. For example, if CCX is entered as a determinant of ICX for 1980, the t-value is 9.5, the highest t-value anywhere in the analysis of campaign expenditure.\*

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\* Because of the expected correlation between the residuals of the CCX equation and ICX equations, the appropriate econometric technique would be seemingly unrelated least squares (SUR). However, the right-hand-side variables are identical in the two regressions. Thus, OLS regressions yield the same coefficients as SUR.



TABLE 4

THE EFFECT OF FEDERAL SPENDING ON CAMPAIGN EXPENDITURES:  
COMPARISON OF 1980 WITH 1978 AND 1976

	DEPENDENT VARIABLES											
	CCX						ICX					
	1980		1978		1976		1980		1978		1976	
V(-1)	-.54	(7.61)	-.50	(7.80)	-.49	(-6.50)	-.45	(-5.36)	-.50	(-7.65)	-.50	(-6.67)
ΔPCI	-.04	(-.59)	.06	(.97)	.003	(.06)	.10	(1.38)	.11	(1.79)	-.04	(-.75)
TENURE	.15	(1.98)	.002	(.03)	-.10	(-1.30)	.14	(1.63)	.02	(.22)	-.05	(-.68)
FIRST TERM	-.33	(-1.81)	-.08	(-.50)	-.12	(-.60)	-.20	(-.98)	.01	(.03)	-.02	(-.09)
REPUBLICAN	-.39	(-2.96)	-.52	(-4.32)	-.66	(-4.63)	.19	(1.31)	-.17	(-1.35)	-.35	(-2.50)
SCANDAL	.31	(.70)	.55	1.39	.55	(1.08)	.29	(.59)	.14	(.33)	1.02	(2.01)
ΔCONSTRUCTION/EMP	-.09	(-1.40)	.09	(1.61)	.08	(1.41)	-.01	(-.20)	.11	(1.82)	.10	(1.76)
ΔGOVT EMP/EMP	.03	(.50)	.07	(1.18)	-.02	(-.33)	-.01	(-.18)	.05	(.84)	-.06	(-.98)
R <sup>2</sup>	.29		.30		.28		.16		.28		.28	
Adj. R <sup>2</sup>	.26		.27		.26		.12		.25		.25	
N	194		221		229		194		221		229	

In table 4, one major variable with the same direction of effect in both regressions is  $V(-1)$ . The negative coefficient on  $V(-1)$  means that when one candidate is dominant, expenditures by both candidates will be low. One possible causal mechanism could be that high  $V(-1)$  depresses CCX, which allows a low ICX. Scandal raises campaign expenditure on both sides; it creates a hard fought election which, as noted earlier, works against the incumbent. With one exception, Republican incumbency depresses campaign expenditures, which helps the incumbent. First term has a similar effect, but with less significance. The other variables display lack of significance or consistency in sign from year-to-year.

The construction variable, in particular, has a positive (and insignificant) effect on campaign expenditures in 1978 and 1976, which works against the incumbent. Government employment has an erratic and insignificant effect. We find no evidence that securing government spending or employment in his district is a good way for an incumbent to raise campaign funds or to avoid a serious challenge. This accords with the earlier results on votes, which would have incorporated an effect via campaign expenditures.



## CONCLUSION

Our basic objective when we set out was to test what is almost a truism in American politics, i.e., that changes in local spending bear importantly on the reelection of incumbent Congressmen. Our basic conclusion is that they do not. Moreover, securing local spending does not help stave off a challenge. The findings are clear and persistent over at least the last three elections.

Why then is it so hard to cut the budget? Clearly, it is not the intrinsic merit of the spending. The budget is littered with programs that provide benefits to special interests at the expense of taxpayers in general: consider AMTRAK, price supports for farmers, subsidies for shipbuilders and operators, fast-breeder reactors; consider tax breaks, loan subsidies, import restrictions, etc.--and there is a *prima facie* case that they do not serve a "national interest." Why do these special interests persist?

There are several plausible explanations. One is that Congressmen think that local spending is politically valuable. Indeed, the idea that it pays to dip into the pork barrel is so deeply ingrained in the folklore of politics that we would have been tempted to reject our own

findings had they not been so strong.\* Even those Congressmen who question its value, in general, are likely to think of their own electoral problems as unique and be unwilling to risk their reelection on such a judgment.

Another possibility is that Congressmen want spending in their districts for reasons other than its electoral effect. Jones and Woll suggest that policy is not an expression of the public will, transmitted through the representative process; instead:

"Members of Congress and staff manipulate external politics for internal purposes. Their legislative activities are aimed at their colleagues, who are their real constituents. Outside constituencies are mobilized to gain internal support for legislation. Congress is not the captive of lobbyists. Rather the chairmen of committees exercise leadership within their policy spheres as they attempt to boost their reputations on Capitol Hill."\*\*

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\* Every political scientist we talked to in the course of this study has predicted that Congressmen would pay no attention to our findings, whatever they were. That is consistent with what a Congressman once told us, that "Congressmen don't like statistics, and they don't like statisticians."

\*\* Jones and Woll [2 p. 234].



There is yet another possibility: that the difficulty of changing either the budget as a whole or particular items in the budget is due simply to inertia rather than to the purposive behavior of Congressmen. Perhaps a better term than inertia is ennui; the very idea of "politically impossible" is stultifying. The frustration of a Presidential aide working on the budget was expressed in a memo:

"The central problem with the...budget process was that, as a rule, the President did not receive major, viable options. ... He could not pay for major increases in programs (or a budget surplus, or a tax cut) because he could not make major program cuts to free up the money. He could not make major program cuts because no one would tell him where major cuts could be made. ...

"One reason why we hesitate to raise large options is the notion that--even on important issues--we are to filter out those Presidential options that run up against 'political constraints.' I believe the notion is pernicious because we almost always tend to overestimate the 'political constraints.'"\*

\* Whitehead [8].

Whatever political constraints prevent spending cuts, however powerful they are, they are not rooted in elections. If cutting budgets for failed programs and removing outdated or inefficient regulations did threaten the political lives of incumbents, one could hardly hope for improvement. Politicians, like the rest of us, are generally unwilling to do themselves in in the name of "efficiency." But the evidence is clear: Budget cuts are not life threatening.

While that should give heart to those who want to rationalize federal spending, it gives no guidance about how to do the job. The persistent growth of spending and the persistent failure of both the Executive Branch and the Congress to get rid of deadwood from the past suggests that there is a systematic failure somewhere. What we have shown is where that failure is not. The next step is to figure out where it is and suggest means of correcting it.



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## APPENDIX

Much of the data used in this study comes from standard sources:

- o Vote data for years before 1980 were provided by ICPSR.  
For 1980, data were taken from Congressional Quarterly.
- o Campaign spending data were taken from reports published by the Federal Elections Commission.
- o Tenure was from the Almanac of American Politics.
- o Scandal, a dummy variable, is based on analyses appearing in Congressional Quarterly at election time. Scandal=1 for involvement in ABSCAM (in 1980), cases of sexual misconduct, cases involving proven acceptance of illegal campaign contributions, etc.

All the other variables, reflecting employment, income, population, and federal spending were not available in standard sources and call for more detailed explanation.



- o Private and government employment, population, and per capita income, by county, were provided on computer tape by the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce.
- o Dollar values of federal spending were developed from data provided by the Community Services Administration (CSA) of the U.S. Department of Commerce. These data, reported to CSA by federal agencies, describe spending, by county in the U.S. in more than 2000 separate program accounts.

All data reported by county had to be aggregated to represent Congressional districts. Where districts were composed of whole counties or groups of counties, there was no problem in adding them up. Where a county contained more than one district, employment, spending, etc., in the county had to be allocated to the separate districts. The allocation was based on the proportion of the population in the county residing in each district, according to the 1970 census (1980 census data were not available at the time of this study).

As noted above, the CSA data are compiled from reports submitted by federal government agencies. Individual programs are identified by name and by budget account, which have changed occasionally over the years since the compilation began in the middle 1960s. Although we have no

direct evidence, we have been told that there are some reporting errors in the data. In particular, it is possible that all spending in some individual programs is reported as occurring in the county containing the state capital. A check of spending levels in districts containing the state capital did show much higher average spending levels than in other districts.

To put together acceptable spending aggregates that reliably reflect changes over time, we selected programs by type for the election years from 1974 through 1980. Where questions arose about name changes or the addition or deletion of names, we checked with outside sources to be sure that the programs belonged in the particular spending aggregate. To eliminate cases where all spending was allocated to state capitals, we eliminated from the sample the districts containing the state capitals.

"Construction" was measured by summing, by county and then by district, spending reported in over 250 programs identified as construction or construction related by the program name. The programs included such titles as "Military Construction," "Fossil Energy Construction," "Highway Planning and Construction, FHA," "Plant Engineering and Design," and "Water Resources Planning." Many of those programs showed spending in only a few counties. Total construction in 1980 was about \$21 Billion.



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## Notable & Quotable

*Peter L. Berger, Boston University professor of sociology, in the article "Speaking to the Third World," in a recent issue of Commentary magazine:*

Given the adversary posture of Third World ideology vis-a-vis the United States, it is inevitable that Americans will have to adopt a critical stance. At the same time, Americans must have the confidence to present a positive model of development that is properly their own—to present, that is, an American ideology of development. . . . The idea that the American experience could be directly transplanted to the Third World and emulated there in all its details was dubious even in the 1950s. It is both intellectually dubious and politically ineffective now. What we must rather do (and this is by no means an easy task) is to isolate certain key elements of the American experience which are not necessarily dependent on the peculiar historical and cultural features of our society, and define the manner and degree to which they can be transplanted to different societies.

Two such elements stand out: democracy and capitalism. At the heart of any American ideology of development must lie the concept of democratic capitalism. . . . Specifically, what needs to be shown is that the human benefits associated with the democratic ideal are linked empirically (and perhaps linked necessarily) with societal arrangements that, minimally, leave important sectors of the economy to the free operation of market forces.

# INTERNATIONAL THE FAR EAST



## The post-Confucian challenge

For the 200 years since the onset of the industrial revolution, the west has dominated the world. Today that dominance is threatened, not just by the Russians, who are anyway heirs, at least in part, to the western tradition; nor by the Arabs whose stranglehold will relax as the sands run dry; but more fundamentally by the east Asian heirs to Confucianism, who have so far provided the only real economic, political and military challenges to the Euro-American culture. Roderick MacFarquhar, author and broadcaster on Chinese and Asian affairs and former Labour MP for Belper, explains

In Tokyo last autumn, a Chinese vice-premier reportedly told his Japanese hosts: "Add your 100m to our 900m and we have a wonderful force that none can ignore or obstruct". A piece of wishful rhetoric? Perhaps. Calculated to revive Kaiser Bill's nightmare of the "yellow peril"? Possibly. A foretaste of the greatest threat to western supremacy since the industrial revolution? Definitely.

Confucianism has been the ideology par excellence of state cohesion, and it is

that cohesion which makes post-Confucian states particularly formidable. The Confucian military challenge to the west came first. The Japanese were the earliest third-world nation to defeat a western power in all-out war, when they trounced Tsarist Russia in 1905. The second world war confirmed that the Japanese victory had been no fluke. The Chinese, the Koreans and the Vietnamese went on to demonstrate that military prowess was not limited to one post-Confucian state.

No other culture has registered so many major military successes against the west in modern times.

Politically the challenge has come from China, where Mao Tse-tung attempted to define a new society, different from both western democracy and Soviet-style communism. This vision has been abandoned only partly and may yet be revived.

The lineaments of the economic challenge have been visible for two decades. Readers of this newspaper were among the first to be alerted to it when one of its correspondents issued his invitation in 1962 to "Consider Japan". (The author of that article was Norman Macrae, now the paper's deputy editor and to this day something of a celebrity in Japan.) Since then the American futurologist, Herman Kahn, has described "The Emerging Japanese Superstate" and recently a Harvard sociologist, Ezra Vogel, has been lionised in Tokyo for describing "Japan as Number One".

So Japan has arrived. But the Japanese are not alone. Comet-like they trail an incandescent tail of post-Confucian east



## INTERNATIONAL: THE FAR EAST

Asians: Koreans from South Korea, Chinese from Taiwan, Singapore and Hongkong.

Their numbers vary widely: 105m Japanese, 35m South Koreans, 16m Taiwanese, 41m Chinese in Hongkong, 21m in Singapore. Their political systems and complexions differ considerably: right-wing-run parliamentary democracy in Japan; left-wing-run parliamentary autocracy in Singapore; tightly controlled proto-democracies in South Korea and Taiwan which justify themselves by the danger of invasion by their communist countrymen; benevolent but non-democratic colonial rule in Hongkong.

In their early years of postwar growth, American aid was important to Japan, South Korea and Taiwan, British enterprise to Singapore and Hongkong. But there are many other countries about which that can be said. The significant coincidence is culture, the shared heritage of centuries of inculcation with Confucianism. That ideology is as important to the rise of the east Asian hyper-growth economies as the conjunction of Protestantism and the rise of capitalism in the west. The tenets of Confucianism still provide an inner compass to most east Asians in a post-Confucian age, just as the admonitions of the Sermon on the Mount still constitute the standard for the west in a post-religious era.

### Their own ideology

The basic thrust of Confucianism has altered surprisingly little since the apho-

Roderick MacFarquhar



risms of the master were recorded by his disciples a generation before Socrates. Confucianism became the official ideology of the Chinese state two centuries before the birth of Christ.

It was essentially a philosophic justification of government by benevolent bureaucracy under a virtuous ruler. Virtue ensured harmony between man and nature and ensured obedience within a stratified society. As one Confucian classic put it:

Possessing virtue will give the ruler the people. Possessing the people will give him the territory. Possessing the territory will give him its wealth. Possessing the wealth, he will have resources for expenditure. Virtue is the root, wealth is the result.

During the Neo-Confucian renaissance of the eleventh and twelfth centuries, the ideology was given a metaphysical dimension to fill a gap exposed by the influx of Buddhism from India. Thereafter, good Confucians could, with easier conscience, scorn the Buddhist renunciation of the affairs of the visible world, though some officials undoubtedly remained Buddhists in private or in retirement.

But abstractions proved of little lasting interest to Chinese thinkers. The real importance of Neo-Confucianism was that this restatement of fundamental precepts restored Confucianism to a primacy in China and neighbouring states that remained unchallenged for 700 years.

Chinese institutions were copied, though significantly modified, in the differing contexts of Japan, Korea and Vietnam. But Neo-Confucianism provided the basic ideology for China's admiring neighbours until the advent of the west.

The tenets of Neo-Confucianism were highly appropriate to the settled, sophisticated agrarian civilisations of pre-nineteenth-century east Asia, for they knitted together society and polity in a manner calculated to promote stability and harmony. Ideally, state and family were mirror images, the emperor being the supreme paterfamilias, his benevolent rule reciprocated by the obedience of his ministers and subjects, in the same way as father ruled son, husband wife, and elder brother younger brother.

The ultimate guarantee of harmony was the justness of the ruler which permitted him to enjoy the "mandate of heaven"; the people had a right, indeed an obligation, to rebel against a tyrant. But while the ethical basis of Neo-Confucianism was crucial, the Chinese, as supreme practitioners of the art of government, also knew that a morally motivated bureaucracy was an essential transmission-belt between ruler and subject. To this end the Chinese had perfected in the seventh century the world's first examination system for selecting bureaucrats. The



**Confucianism:** Based on the aphorisms recorded by disciples in the "Analects" of K'ung-fu-tzu (Master K'ung, circa 551-479 BC). Confucius was a frustrated official and superb teacher who accepted the hierarchical nature of Chinese feudalism but injected an ethical element into government by insisting on the cultivation of virtuous rulers and officials. Inner virtues were to be complemented by outer polish; the Confucian ideal was the superior man of the golden mean.

Confucianism became the official ideology of the post-feudal imperial Chinese state in the second century BC under the Han dynasty.

**Neo-Confucianism:** Initially sprang from the revulsion of Chinese intellectuals from "foreign" Buddhism as well as a resurgence of confidence in indigenous political ideas. It reached its zenith under the Sung dynasty in the twelfth century, when its greatest protagonist was Chu Hsi. The Neo-Confucians reaffirmed the importance of the Confucian virtues as the hallmark of the superior man, but, more importantly, codified the amalgam of Confucian philosophy and imperial practice as it had developed since the master's time: the correspondence of family and state, and the institutionalisation of a benevolent bureaucracy.

**Post-Confucianism:** Like "post-industrial", the term "post-Confucian" is used to connote societies which bear the obvious hallmarks of industrialism/Confucianism, but which have been significantly altered by the accretion of new elements.



syllabus was the Confucian canon.

Of course, the Neo-Confucian system was no more immune to the appetites and ambitions of man than any other political philosophy. Many Confucian emperors were models of brutality rather than benevolence. But stability was achieved. In China there was only one change of dynasty between 1368 and the end of the imperial era in 1911. The Tokugawa Shoguns, who completed the reunification of Japan in 1600, remained in power for over two and a half centuries. In Korea, the Yi dynasty ruled from 1382 until the Japanese conquest of 1910. Periodic civil strife and rebellion were not eliminated in any of these countries, but only in Vietnam was the longevity of a dynasty a cloak for inextinguishable internecine warfare.

Like a happy and secure childhood, the evident excellence of Confucian civilisation bestowed upon its various practitioners a superb self-confidence with which to meet the challenge of the west. In the case of the Chinese, this confidence amounted to an arrogance, even in the depths of humiliation, equalled only by the British at the height of empire.

The very durability of the Confucian state made it particularly difficult for the Chinese to accept any substitutes, and particularly traumatic when acceptance was effectively forced upon them. The Japanese, as borrowers and adaptors of Buddhism as well as Confucianism, decided to abandon their traditional civilisation and learn anew from the west without any such agonising reappraisal and without the spur of defeat at foreign hands. The Koreans found themselves drafted into the modern world by their Japanese conquerors, the Vietnamese by the French.

But all east Asian peoples, however they met the challenge of the west, benefited from their Confucian heritage. Since Confucianism was essentially an agnostic ideology, concerned with the management of the visible world, the post-Confucians experienced little of the spiritual angst that afflicted Hindus, Moslems and indeed Christians in their collision with the "materialism" of the industrial revolution.

The Confucian civic culture also provided the basis for a long history of successful self-government in east Asia. East Asians entered the modern world of nation states in self-consciously discrete secular units. Contrast this with the Indian subcontinent, where two major religions and a dozen major linguistic groups had been united in modern times only under foreign rule; though the leaders of the struggle for Indian independence sought to establish a secular republic, the only indigenous unifying force was

Hinduism, a fact which frightened Moslems into insisting on a separate state.

There was an element of geographic luck. The durability of Confucianism and the persistence of two Confucian monarchies into the twentieth century—in China and Korea—was due in part to the "isolation" of the east Asian peoples at the far end of the European trade routes. The waves of western imperialism flooded over Vietnam but only lapped the coasts of China, Japan and Korea. The Chinese understandably resented the semi-colonial treaty ports and the military defeats which led to their creation. But most of the country had no experience of genuine colonialism. In no other major cultural area of what is now called the third world did so high a proportion of the people escape western rule. So east Asians approached the west with fewer chips on their shoulders and a greater willingness to learn.

## Eastern learning

Applied learning is the key to the success of the post-Confucian states. As a contemporary Chinese-American scholar puts it: "In Neo-Confucianism, as in Confucianism throughout the ages, knowledge and action are of equal importance". The founder of Sony, Masaru Ibuka, went further: "Any invention or discovery is a great thing but to put it to practical use is even more important."

The Confucian literati grew their fingernails long to demonstrate that they did

not perform manual labour but at no time did they display an academic antipathy towards the world of affairs. Indeed, the Chinese equivalent of the log-cabin-to-White-House myth was of the bright peasant lad whose village clubbed together to get him educated and whose subsequent success in the imperial examinations resulted in the elevation of all who had helped him on his way into the civil service.

The Japanese were the first in the field of modernisation. Within four years of their decision to learn from the west an imperial rescript on education had stated:

The acquirement of knowledge is essential to a successful life. . . It is intended, henceforth, that education shall be so widespread that there shall be no house in any village, no person in any house, without learning.

The Meiji modernisers had an excellent foundation on which to build. Before their takeover in 1868, up to 50% of boys and 15% of girls were receiving some formal schooling outside their homes. This reflected both the bureaucratic needs of the Confucian Tokugawa regime and its emphasis on education as the means of upward mobility. By 1908, Meiji educationalists had virtually all children at school up to the age of 14. In Britain, schooling until 14 became compulsory only in 1922 and totally implemented only in 1961. Today, 85% of Japanese children complete the equivalent of a sixth-form course.

A similar stress is placed on education elsewhere in the post-Confucian world.



Chopsticks in Tokyo



## INTERNATIONAL: THE FAR EAST

In Taiwan, the proportion of children finishing secondary schooling is about the same today as in Japan in 1960, while the proportion going on to tertiary education is almost as high as in Japan. In South Korea, 90% of whose people are literate, compulsory education to the age of 14 is scheduled for next year; but already 83% of primary school graduates enter middle schools and 75% of middle school graduates enter high schools. In Singapore, about 72% of the population aged 10 or over is literate; education is not compulsory, but six years of primary schooling is free and universal. In Hongkong, universal free and compulsory primary education was achieved in 1971. Free and compulsory secondary education to 14 came into effect recently and the compulsory age limit will be raised to 15 soon.

Literacy levels and consumption of newsprint are two crude measures of educational achievement. This is how the post-Confucian states compare with other parts of the third world:

Country	Illiteracy: Percentage	Consumption of newsprint: Kg per 1,000 population
Taiwan	7.0 (1973)†	Not known
S. Korea	12.4	4,345
Hongkong	22.7	13,041
Mexico	25.8	3,830
Singapore	31.1	14,991
Brazil	33.8	2,780
Indonesia	43.4	437
Kuwait	45.0	5,438
Bahrain	59.8	5,976
Iran	63.1	717
India	66.6	294
Nigeria	84.6 (1962)	340
Saudi Arabia	97.5 (1962)	892

\*Unesco figures for 1970 and 1971, except where indicated.  
†Far Eastern Economic Review estimate.

The educational attainments of the non-communist post-Confucian states are particularly significant, since people are their principal asset. Cultural heritage apart, the main characteristic common to Japan, South Korea, Taiwan, Singapore and Hongkong is a lack of natural resources. The city state of Kuwait has been able to use its massive oil revenues for a determined attack on illiteracy and the provision of free education from kindergarten to university; such generosity is not possible for the city states of Singapore and Hongkong.

Education has been one key element, along with rising living standards, in making the post-Confucian states the most successful third-world countries at family planning. Confucian ancestor-worship reinforced the natural tendency in agrarian societies to produce sons to provide for a comfortable old age.

But east Asian modernisers called upon another Confucian characteristic—social discipline—to get their people to

Crude birth rate per 1,000 population		
Country	1965	1975
	(or year stated)	
Japan (iii)	34.3 (1947)	17.2 (1957)
China	34.0 (1957)	14.0 (i)
Taiwan	32.4	23
Hongkong	28.8	18
Singapore	31.1	18
N. Korea	41.1	36 (ii)
S. Korea	17.3	24 (ii)
Vietnam	27.7	36 (ii)
Indonesia	43.0 (1962)	38
India	41.7 (av. 1951-61)	35
Iran	41.9	38
Nigeria (iv)	67.0 (1963)	49
Brazil	41-43 (av. 1960-65)	37

(i) Probably only in major cities. (ii) War probably distorted the pattern in the case of these states. (iii) Birth-rate per 1,000 in 1965 was 18.8 and in 1975 was 17.0. (iv) Lagos only.

accept the anti-traditional values of planned parenthood. "An unbelievable display of social solidarity and community responsibility", Herman Kahn called it.

Another of Confucianism's strengths was as a social cement which fixed family members in their appropriate hierarchical relationships. The family that obeyed together stayed together.

The leaders of Meiji Japan soon grasped the advantages of making the nation a macrocosm of the family. The 1890 imperial rescript outlined the objectives of education; the Confucian concepts of loyalty, obedience and filial piety were to be transferred from the family to the nation. At about the same time, the Chinese scholar Yen Fu—whose translations of Adam Smith, John Stuart Mill, Herbert Spencer and Montesquieu were part of the diet of reform-oriented Chinese like the youthful Mao Tse-tung—was also coming to the conclusion that filial piety fostered habits of disciplined subordination and acceptance of authority which could be applied to the factory and the nation.

In a book published shortly before his assassination last October, South Korea's President Park indicated the connection between the close-knit, authoritarian Confucian family and the development process:

Just as a home is a small collective body, so the state is a larger community . . . One who does not maintain a wholesome family order cannot be expected to show strong devotion to his state . . . A society that puts the national interest above the interests of the individual develops faster than one which does not.

President Park's theme is echoed, in a significantly different context, by his arch-enemy in North Korea, Kim Il Sung:

Communist society represent a harmonious and united community. Everyone must become accustomed to loving the collective and the country, and their comrades. . . From old times it has been a fine custom among us Koreans to live in harmony.

What, no class struggle, comrade?

The Meiji Japanese had one supreme advantage over latter-day post-Confucian modernisers when they recycled their traditional values for an industrialising society. They were making no ostensible socio-political break with the past. Quite the contrary; the Meiji period was billed as a "restoration", as a result of which the emperor was better enabled to perform his ancient role at the apex of Japanese society. The tensions engendered by the development process were mitigated in Japan by loyalty to a living, yet divine, human being.

It is impossible to create such a loyalty for a colony like Hongkong, difficult to build it up for a new entity like Singapore, and unrealistic to try to maintain it for a rump state like Taiwan by means of a myth of return to the mainland. The two Koreas have had their strong men, but probably only Mao Tse-tung was able, temporarily, to rival the Japanese emperor as a human focus of and justification for the modernising process.

But there can be other justifications for modernisation. Egalitarianism is one. In a recent survey by the World Bank, Japan, Taiwan and South Korea were described as countries with low inequality of income.

## Oriental Smiles

Where the Japanese have led and their east Asian neighbours have been able to follow has been in the use of Confucian-style moral exhortation to inspire their people. Seeking European models for the modernisation process, Meiji Japanese fixed upon that prophet of Victorian virtues of thrift and self-help, Samuel Smiles. Was it any wonder that the Japanese should find Samuel Smiles congenial when they read:

The home is the crystal of society—the nucleus of national character; and from that source . . . issue the habits, principles and maxims, which govern public as well as private life. The nation comes from the nursery. . . The government of a nation itself is usually found to be but a reflex of the individuals composing it. . . Indeed all experience serves to prove that the worth and strength of a state depend far less upon the form of its institutions than upon the character of its men.

The deputy prime minister of Singapore, Goh Keng Swee, once criticised the economic planners of the third world for failing to do their job because they had not realised that "at the stage of development of their country, the injunctions of Samuel Smiles, however offensively sanctionious they may be, are more in keeping with the needs of their times and their countries than all the stuff that the





Circuits In South Korea and, of course, Japan

**L** econometricians are producing".

Unlike Goh Keng Swee, Mao Tse-tung seems not to have read Smiles's "Self-Help"—though he translated it into perfect Chinese when he advocated *tzu-li keng-sheng* as a national principle for economic development. As Mr Goh observed: "What is remarkable about the way communist China is carrying out its task is the tremendous amount of moralising that is going on, and much of it along the lines which the great Victorians would certainly have approved of."

The Chinese and North Koreans use stories of real life heroes to put their message across—which was essentially Smiles's way of indoctrinating Victorian youth—and without the cynicism of European communists. But in both communist and non-communist post-Confucian societies and in Japan the individual is less important than the collective or the company. Even western-style postwar entrepreneurs like Akio Morita of Sony and self-made men like Soichiro Honda have placed enormous stress on the corporate spirit. In the west the "organisation man" is a somewhat repellent figure. In Japan the company man is the ideal. He is woven into the fabric of the firm by a guarantee of lifetime employment, a web of welfare arrangements and a host of group activities and psychological pressures.

For the origins of Japanese company feudalism, one has only to look back a century to the patterns of Tokugawa society. But, in addition, the Japanese employer, true to his Confucian roots, believes strongly in what Professor Ronald Dore has called "the efficiency of benevolence". It evidently works.

Aggressive corporate profit-seeking is justified also by an acceptance of re-

sponsibility towards the wider community. In one company history, a picture of a skier is captioned: "Mitsui & Co handles sporting goods, thus contributing to healthier living." Japanese firms respond to government guidance on the national interest.

The spirit of economic community extends to the consumer, who is motivated more by conformism than competitiveness. Promotion is normally by seniority; so thrusters, attempting to keep up with and overtake the Joneses and to display their success by conspicuous consumption, are the exception. But Japanese consumers know they are the essential launching pad for their nation's export drive and they buy electronic gadgetry in profusion. Never mind the ubiquitous transistors and colour TVs; 20% of all Japanese households possess an electronic organ.

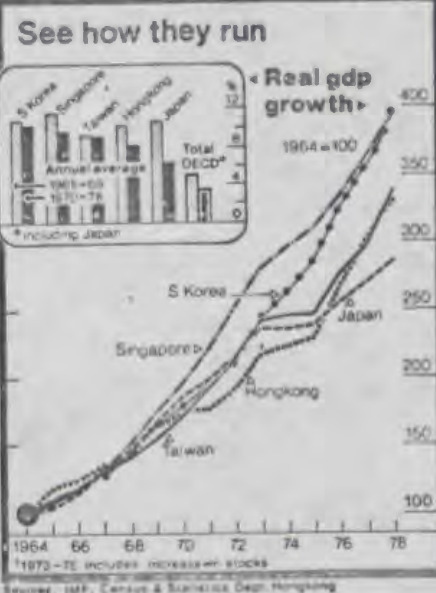
Significant historical and geographical differences will prevent the Japanese model being replicated in, say, Singapore. But common elements are that post-Confucian economic man works hard and plays hard, buys much, but saves more. He accepts a society stratified by age as well as by ability, perhaps partly because income differentials are insufficient to arouse resentment. He perceives that his prosperity is inseparable from the good of the community and he accepts guidance as to where that lies.

The non-communist east Asian states have already demonstrated that their post-Confucian characteristics—self-confidence, social cohesion, subordination of the individual, education for action, bureaucratic tradition and moralising certitude—are a potent combination for development purposes. History reminds us that development, post-Confucian style,

has not been without political, social, institutional, cultural, and psychological strains. But if western individualism was appropriate for the pioneering period of industrialisation, perhaps post-Confucian "collectivism" is better suited to the age of mass industrialisation.

Of the 10 rapidly growing "newly industrialising countries" pinpointed by the OECD because their competitiveness is causing concern to the developed world, the only ones with non-European cultural origins are the post-Confucians: South Korea, Taiwan, Singapore and Hongkong. These 58m post-Confucians have a share of world exports of manufactures one third larger than that of the 247m Brazilians, Mexicans, Spaniards, Portuguese, Greeks and Yugoslavs who make up the rest of the OECD list.

Add in Japan, and it is easy to under-







Contemplation . . .

stand why western politicians and trade unionists regard the post-Confucian states as a threat. The impact of imports from the Far East is growing rapidly. Everyone knows that the Japanese destroyed the British motorcycle industry, eclipsed the Swiss watch industry and brushed aside the German camera and lens industry. Less well known is the fact that Japan, Hongkong and South Korea supply 75% of Britain's cutlery imports; that Singapore supplies 36% of its imports of hygienic and pharmaceutical rubber goods; and that Japan and the other post-Confucian states supply 55% of Britain's imports of record players and tape recorders, 18% of its imports of watches, 20% of its imports of television tubes, transistors and valves.

## Western response

The instinctive western response is protectionism. For short periods, for selected products there may be some justification for this. In the case of Japan, the EEC and the United States rely on informal restraints on the export of cars, steel, textiles, television sets. But over the long haul, protectionism can only bring disaster—and not just in terms of the familiar free-trade arguments.

Western exclusion of east Asian nations from their markets could encourage those countries to set aside their national and political differences and band together in some latter-day version of Japan's wartime Greater East Asian Co-Prosperity Sphere. Under such circumstances it would be extraordinary if China did not attempt to exploit its cultural and racial ties within east Asia, to organise a post-

Confucian "constituency". How it might take shape is difficult to predict, especially now when Sino-western relations are excellent, but that remark to his Tokyo host by the Chinese vice-premier suggests that this is no chimera over the long haul. If the "four-modernisations" policy succeeds in transforming China over the next several decades, an economic powerhouse will rise in east Asia, by which standard the economic miracles of the

South Korea and Singapore would seem like solar flares against the sun.

The gravest aspect of an east Asian block, clustered along a Sino-Japanese axis, would be that its mainspring would be hostility to the west, and a determination to supplant it. The traditional Chinese world view was a reflection of the Confucian vision of a carefully articulated hierarchical society. Foreign monarchs and states were assumed to be tributaries of the Middle Kingdom: "There are not two suns in the sky, there cannot be two emperors on earth."

During the course of the past century, the post-Confucian states have had to accustom themselves to a pluralistic world of theoretically equal nation states. But how deep the adjustment has gone is difficult to ascertain, especially in China. If the west is perceived to be attempting to maintain the leadership it snatched 200 years ago by industrialising first, and if the post-Confucians believed that they were to be kept in permanent tributary status and denied the fruits of their dynamism, then the Chinese would have to assume that pluralism was eyewash and that the western world view in fact replicated their own traditional one.

Trade war would then become *Kulturkampf*, with the post-Confucians asserting their right to take over primacy from the west. The winner would be hard to pick. Better for the western nations to surrender now to equality—and struggle to maintain it.

. . . and commerce





# Manager's Journal

## The Third Sector

When Alexis de Tocqueville visited America during the 19th Century he was impressed that the United States had three active sectors of the political economy: Today we would call them business, government and nonprofit. Governmental hegemony was not much of a threat because a number of vital social institutions—education, aid to the poor, etc.—were in the hands of community groups which were more responsive to their constituencies than the European bureaucracies of his time tended to be.

The unmistakable trend in the American social system during the past 50 years, though, has been towards a society dominated by two sectors, one commercial, one

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By Marvin Olasky

*The author is a member of Du Pont Co.'s public affairs department.*

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governmental. The two sectors have taken on almost all of the work of society and are now locking horns like rhinoceri over what is left. With the old third sector—institutions which are not government agencies but which are still not profit-making—increasingly ignored, Americans have fallen into the habit of sitting back, watching the combat, and hoping that the problems of society will be taken care of by one super-power sector or the other.

First came government's turn, but in recent years government has been seen by the American people to possess not just the bulk of a rhinoceros but the brain as well. The result of such disenchantment is that Americans are asking businesses to take care of social problems which government has handled ineffectively. But are corporations being asked to do what they cannot do economically and do not have a right to do morally?

The economic limits ought to be clear, although they seem to be ignored with amazing frequency. A little simple arithmetic will show that even enthusiastic corporations can exercise "social consciousness" only to a limited degree.

Businesses are rightfully called upon to improve products and productivity, protect the environment and the energy supply, and ensure safe working conditions. They need a certain level of profits to use for new capital expenditures, to provide what Peter Drucker calls "pension fund socialism," and to stay competitive in the investment market generally. When those obligations are met, throwing the money that remains at a large social problem external to the corporation will hardly scratch the surface. (Du Pont's dividends last year of \$288 million would keep HEW running for less than half a day.)

Business should not take refuge in economic arguments alone, though. As a matter of principle, business power in nonmarket spheres should be strictly limited. For, if every business could somehow escape the discipline of the market system to take on a variety of social tasks, the obvious question for businessmen would be: by what right have you, as citizens with stewardship for particular economic concerns, assumed these additional powers?

The two most common definitions of democracy, after all, are: (1) operating through direct elections, and (2) giving the people what they want (in the case of business, as seen through the market mechanism). Business has democratic legitimacy only because it is controlled by the market and does what the market wants it to do. It is not hard to predict the criticism that would develop if business followed the more radical "social responsibility" arguments and started using its power to run, and eventually control, everything from social welfare programs to anti-crime campaigns.

For economic and moral reasons, therefore, the public should not rely on business to remove social chestnuts from the fire. So what is to be done? Corporate inaction looks heartless to many, and is bad in any case because social problems remain and because a two-sector economy forces business to involve itself in a zero-sum game: When one sector gives up influence, the other sector necessarily gains. Corporate inaction means government aggrandizement—unless there is a third choice.

The zero-sum game could be ended by the development of a more significant nonprofit sector which could substantially deal with the problems of education, health, housing, and other social services.

Many analysts, including the President's top economic advisor, Charles Schultze, have suggested this. The problem with talk about the third sector, though, is that few Americans seem to believe that third sector organizations are capable of tackling the big jobs. There is a general feeling that the other two sectors are so large that they have a virtual monopoly on problem-solving capacity.

Consequently, there is a feeling that talk of the third sector is a wing and a prayer, and that those who propose to hand it some big jobs are in effect saying that they do not care if those jobs get done.

To turn that feeling of impracticality around, corporate managers should be examining now a variety of ways to make the third sector a real factor in the political economy once more. Corporations should use their political muscle to foster changes in the income tax structure which would provide more incentives for contributions to nonprofit groups. Corporations should give their managers time to train third sector personnel in management and control operations so that an increased dollar flow can be used efficiently. Corporations should work in their communities for programs such as voucher systems and Health Maintenance Organizations which could reverse the long-term trend to centralization of education and medical systems.

If corporations use their clout now to foster appropriate systems for decentralized social services management, they will not at a later date be faced by political pressures to run such programs themselves or see government run them. By acting vigorously now, not to grab power but to turn it down, corporations will be able to maintain their legitimacy and independence.



ing. Mr. Halley asserted that workers left the production facilities "in good shape."

One of the three potlines at Isle Maligne also was closed, but Beauharnois's two lines were working as of yesterday. The potline is where an electrochemical process occurs, producing primary aluminum.

In addition, Alcan's chemical plants at Jonquiere, near Arvida, with the exception of a plant that services pollution-control equipment, also were closed.

The company's 91,000-ton-a-year smelter at Shawinigan, northeast of Montreal, wasn't affected by the strike because two unions are involved in a representation dispute at the plant.

The strike began after contract talks broke off late last week. Negotiations began March 27, and a prior 30-month contract expired May 12.

The union wants a two-year contract with a wage increase of \$1.47 (Canadian) an hour in the first year, to be paid when the accord is signed, and 34 cents an hour in the second year. It also wants a cost-of-living clause, which, with the wage increases, would raise the average hourly pay to \$10.52 from the current \$7.59.

Alcan's proposal, submitted last Thursday, calls for a three-year contract. Wages would rise \$1 an hour at the time of signing, and 25 cents more would be paid at the start of the contract's ninth month. In the second year, a cost-of-living provision would be added, along with a 70 cent-an-hour pay boost, and the third year would have a wage increase of 75 cents an hour. In addition, the company's offer includes improved benefits.

Alcan calculates that its offer would raise the average salary to \$10.29 an hour.

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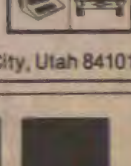
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