

# *The Economy in Perspective*

*Taking care of business...* In 1925, President Calvin Coolidge told the Society of American Newspaper Editors that the business of America is business. Coolidge, who was president from 1923 to 1928, succeeded to the office after the death of Warren G. Harding, whose administration had been rocked by the Teapot Dome and other scandals involving improper contracts with private businessmen. Coolidge had a sterling reputation for honesty and earned sufficient public trust to be elected to a full term in 1924. Cautious about extending the federal government's authority into matters of banking and commerce, he maintained a *laissez-faire* philosophy and a pro-business agenda during a period of national prosperity. Later, historians would fault him for not taking stronger action to temper the stock market boom of the Roaring Twenties; whether he had sufficient moral or legal authority to have prevented the 1929 stock market collapse remains a debatable point today.

Americans have had an on-again, off-again attitude about government's relationship to business. One anchoring principle has been respect for private property and individual initiative; but another has been a sense of fair play and a resentment of concentrated power. At various times in our nation's history, the clockworks have been judged out of synch, and governmental power has been expanded or contracted to recalibrate the national balance wheel.

When Calvin Coolidge spoke to the newspaper editors in 1925, he was ruminating on the question of the press' ability to serve the public interest at a time when some newspapers were owned by large and powerful corporations (*déjà vu!*). His exact words were, "After all, the chief business of the American people is business. They are profoundly concerned with producing, buying, selling, investing and prospering in the world. I am strongly of the opinion that the great majority of people will always find these are moving impulses of our life." Speaking several decades after Theodore Roosevelt took action against big business combinations, Coolidge continued to believe that Americans were, by nature, predisposed to favor private enterprise as an engine of growth and a way of organizing economic life.

During the 1930s, the U.S. economy performed so poorly that the public supported significantly more federal government involvement in economic affairs. For example, the Securities and Exchange Commission was established in 1934 to protect all investors against the unscrupulous behavior of corporations and financial exchanges. The New Deal initiatives redefined the boundaries between the prerogatives of private enterprise and the federal government's responsibility to protect the public. Since that time, those who invest in U.S. firms have come to rely on the accuracy, transparency, and honesty of financial reporting and markets. Increasingly, the investing public has included foreign residents, especially as nations have expanded financial claims on one another through international trade and financial diversification.

The recent accounting and disclosure scandals surrounding Enron and other prominent U.S. businesses are only the latest example of corporate hubris. When exposed, such egotism destroys trust, the backbone of a market economy. Without trust, many transactions become so expensive to monitor and enforce that they are too costly to undertake in the first place. The modern oversight framework relies on an assumption that relatively few people will spend relatively little time trying to deceive others, so that surveillance requires relatively little in the way of resources. But trust has its limits, and transactions must be verified eventually, even if through statistical sampling rather than itemized reviews. Abraham Lincoln's dictum, that you can't fool all of the people all the time, still holds true.

Our history suggests that a mixture of governmental and private steps will be taken in response to the corporate ethical lapses now coming to light. The national balance wheel will be recalibrated, once again, out of a sense of our cultural imperative. If the business of America is indeed business, then restoring investors' confidence in financial reporting, accounting, and auditing is plainly essential. Otherwise America, as we know it, is out of business.