

*The profit motive does not explain business support of the Republican Party.
The fact is that business suffers when Republicans are in office.*

R. D. CORWIN AND LOIS GRAY

OF REPUBLICANS AND RECESSIONS:

Why Does Big Business Vote for Them?

The wild enthusiasm business gave Nixon's new economic policy stems not only from a longstanding business preference for Republicans but a short-run expectation of profit windfalls. In a moment of economic crisis the President turned to business to clear up America's problems. In fact, if the record of the last quarter-century is to be believed, not only will the nation's trouble remain unsolved but business will not get the anticipated bonanza either. The politics of business is clearly Republican, but it is not so clear that the Republican Party is good for business.

According to a *Fortune* magazine survey two years ago, almost three-quarters of the chief business executives interviewed considered themselves Republicans; fewer than 10 percent said they were Democrats. Even when, almost two years later, the percentage calling themselves Republicans had fallen to 58, most of the dropouts considered themselves independents, not Democrats.

And, as Herbert E. Alexander demonstrates in his book *Financing the 1968 Election*, businessmen put their money where their mouths are. In 1968, officers and directors of General Motors gave \$114,675 to Re-

publicans and \$1,000 to Democrats; Litton Industries executives donated a total of \$151,000 to Republican candidates and gave nothing to Democrats. In their campaign donations, members of thirteen major trade associations favored the Republicans eight to one. These contributions during the 1968 election reflected trends that have been relatively consistent in American politics.

It is difficult to know for certain why businessmen support the Republicans so overwhelmingly. An obvious explanation is that it pays. But the obvious is deceptive, for the facts show the contrary.

THE ECONOMIC RECORD

It is worth remembering that in the last quarter-century four of the five postwar recessions have occurred under Republicans and that the real rate of economic growth, the best index of economic performance, has increased more under Democratic than Republican Presidents.*

For business these general trends show up in hard cash. According to the survey of corporate profits published by the First National City Bank, since World War II American business has had its best years under Truman, next best under Kennedy-Johnson, and worst while Eisenhower was President. Even big business, the *Fortune* 500, did better under Kennedy-Johnson

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than under Eisenhower. (No *Fortune* data were collected prior to 1954.) During the Nixon Presidency profit rates have turned down again. The difference in profit seems small when it is recorded as a percentage (the rate of return was 12.7 percent under Eisenhower), but actually amounts to billions of dollars.

It is curious that businessmen continue to invest in the Republican Party. Of course, it should be pointed out that a preference for Republicans is not a life-and-death choice for businessmen. Both major parties are committed to business values. In fact, many businessmen contribute to both Democrats and Republicans and make money no matter who is in the White House.

Social scientists, even economists, have long recognized that people are willing to pay a price for non-economic preferences. Perhaps a GOP victory is just such a preference. Reassuring Republican rhetoric, the ring of "sound dollars and balanced budgets," appeals to the ears. These are the phrases to which businessmen have been conditioned to respond. When they hear Republican sounds, they are eager with anticipation even though, in the end, they may not get the reward. Eventually, with Pavlovian logic, the bell becomes the reward.

Another value for businessmen related to Republican ascendancy pertains to recognition and prestige—psychological benefits. When Republicans are in the White House, businessmen are treated with deference, even exalted. To a large extent the Democrats offer the same recognition, but in the latter case the spotlight has to be shared with other interest groups—labor leaders, minority spokesmen, and garden-variety outsiders.

Even more important than prestige is a sense of freedom from restraint, investigation, and harassment. Since many regulatory agencies were established during Democratic administrations, businessmen have the impression that Democrats are more vigorous in their regulatory activity. Freedom from restraint is important to the self-image of businessmen.

These, then, are values associated with Republicans that transcend economics yet are attractive, even compelling, to businessmen. Perhaps they form an ideological net that draws business to support the Republican Party.

SOME GAIN—OTHERS LOSE

Businessmen may indeed be moved by these non-economic factors, but a closer look at profit data suggests that some businesses have it both ways. Whereas most industries do not benefit financially from Republican administrations, some do. The *Fortune* data on the fifty largest commercial banks reveal that since 1956, the first year *Fortune* published these data, big banks have had a much better period under Eisenhower than under succeeding Democratic adminis-



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trations. They have prospered, in fact, at a time when other businesses were being badly hit. Preliminary data for the Nixon Administration show that once again banks are prospering while other businesses are hurting. It appears that big banks, then, have an economic stake in Republican victory.

Bankers, it turns out, make substantial political contributions. They are heavily represented on innumerable corporate boards of directors; and, as Herbert Alexander and Harold B. Meyers have pointed out, it is corporation directors rather than officers who provide most large political gifts. For example, in 1968 Richard King Mellon, a financier and ex-General Motors Board member, donated \$65,000 to the Republicans, more than all the rest of GM's officers and directors combined. In other words, what appears as a donation from an industrial representative may, in fact, be a banker's contribution in disguise.

Heavy representation on corporate boards has further implications. By virtue of their strategic location, financiers occupy a position of influence in the key corporate centers of American industrial power. This influence was examined in detail by the Subcommittee on Domestic Finance of the House Committee on Banking and Currency. Richard Barber, in his book *The American Corporation*, draws on these hearings to argue that “. . . forty-nine banks have representatives on the boards of directors of 300 of the nation's 500 largest companies.” This creates power; for these forty-nine banks, Barber contends, hold more than half of the nation's bank trust assets, and have, as primary lenders of capital, “acquired trustee ownership of enough common stock in the judgment of most realistic observers of the corporate scene to provide effective control of almost 150 of the 500 largest U.S. industrial corporations.” It is possible, then, that financiers, who as a group profit from a GOP victory, not only contribute heavily to the Republican coffers themselves but are in a position to influence others to do so.

SHORT-TERM PROFITS VERSUS GROWTH

An alternative explanation of the prodigious support business gives Republicans hinges on distinctions based on the size of companies. For large corporations, growth or asset accumulation is a crucial goal, and may supersede profits as a test of success. Since the end of World War II the largest corporations have increased their share of the total corporate assets from 48 to 60 percent and have registered remarkable absolute growth rates as well. It is possible that the economic lags associated with Republican ascendancy

provide long-run opportunity for large companies to expand their share of the market.

Indeed, recessions actually improve the growth prospects of some large corporations. Earlier it was noted that recessions have tended to occur under Republicans. At the same time, business failures also increase. During Eisenhower's Presidency the average annual rate of business failure was twice what it was under Truman. Even more revealing, however, is the year-to-year trend, which shows that from 1953 to the present, the probability of business survival has tended to grow worse with each year of a Republican administration and better with each year under the Democrats. In bad times, while smaller businesses are collapsing, industrial giants do not go out of business—they simply lose money for a while. When the next boom arrives, those firms that are still in the field are in a better competitive position.

By the same token, recessions may increase the vulnerability of smaller firms to be taken over by larger ones. Problems of raising capital, lowered cash flow, and inadequate reserves plague even the largest enterprises; but for a smaller business, these issues may make the lure of “rescue” by a larger firm all but irresistible. In short, although a recession reduces profits, the Darwinian survival test it provides may actually contribute to the long-run profit picture of large firms by increasing their prospects for growth.

Furthermore, opportunities for growth are provided not only by the business cycle but also by specific government actions—subsidies, tax write-offs, and foreign investment guarantees. In 1970, for example, the oil industry had its poorest profit year since 1962. But reports in the national news media indicate that the Nixon Administration has given oil “a bonanza” by permitting a five-year program of extensive and accelerated off-shore drilling. In 1968, American Petroleum Institute executives gave the Republicans over \$429,000 and the Democrats less than \$30,000. Having friends in Washington can help.

When a Republican wins the Presidency, some businessmen prosper, but most do not. Nevertheless, the overwhelming majority provides Republicans with money, the key measure of value. Although justification for these political contributions is presented in “hardheaded” business terms—balanced budgets, sound dollars, fiscal responsibility—what many businessmen seem to want is reaffirmation of their ideology. If so, it appears that few corporate leaders are able to capitalize on this conventional wisdom. In effect, the ideology of the free enterprise system has become the businessman's opiate. ■