THE ROLE OF BUSINESS AND INDUSTRY

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Contents

Summary

The role of business and industry is reviewed as it evolved from pre-industrial times and in various institutional settings: from national expeditions, enterprises under kingly charter, professional guilds, cooperatives to more recent private stock ownership corporations and state-owned enterprises. Evolution of technologies of resource-extraction and exploitation from agriculture and forest-based products to the extraction of minerals, fossil fuels, and uranium to today's shift to biotechnology, information, and

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knowledge-based products and services.

The gradual “dematerializing” of industrial economies as technologies and knowledge advanced is described, and, countering this trend, the increasing role consumerism, advertising and credit in Western economies led to a vast increase in per capita material consumption. The contexts of longer term viability and sustainability of existing industrial societies have only been recognized for some 25 years and addressed concretely only in the past decade. The development of industrial corporations, businesses, and financing mechanisms are highly ingenious social innovations—which drove much technological innovation—and exacted a heavy social price and environmental costs. Cities provided the conditions where markets flourished, including budding stock exchanges, banking, insurance, and other financial and risk-management services—most evident in Europe. China, India, the Middle East, and the Americas—gave the world astronomy, mathematics, clocks, gunpowder, the wheel, the stirrup, and a host of metalworking and glazing techniques.

All these developments were amplified by philosophies of the Enlightenment: individualism, property rights, entrepreneurship, the ethic of capitalism, logical positivism, and utilitarianism, which spread from secularized European societies. The further evolution of capitalism is described as industrialism and business enterprises expand toward ever wider global reach. Issues of globalization and the growing social backlashes to corporate and financial power are reviewed, as well as positive trends. The evolution of global regulations and standards tend to raise the “ethical floor” under the global business playing field—now necessary to ensure that business and industry will function better as a life support system.

1. Introduction

The roles of business and industry in the life support systems of planet Earth are multidimensional and create both positive and negative effects. As the scale of human enterprises grew beyond home- and village-based production with local exchange of goods and services, the importance of such enterprises increased in human life support. Their development was driven by human needs, increasing population, and innovations in storage, transportation, farming, and production technologies. Exchanges of such goods, services, ideas, and technologies originated as barter and in diverse cultural rituals. The invention of money facilitated the reach of such exchanges and led to increasing scale of production and expansion of trading over longer distances.

Business and industry has evolved from these preindustrial times and in various institutional settings: from the local level of professional guilds and cooperatives to national enterprises and expeditions, to more recent private stock ownership corporations and state-owned enterprises. Business and industry also encompass the evolution of technologies of resource-extraction and exploitation from agriculture and forest-based products to the extraction of minerals and fossil fuels. This Industrial Revolution spread from Europe over the past 300 years and is now worldwide. The shift to biotechnology, information and knowledge based products and services has been termed “postindustrial,” an “information age” now rapidly evolving due to communications, computers, the Internet, and satellites into the globalization of finance

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and electronic commerce. Business and industry are now characterized by global corporations, many of which dwarf most of the world's nations.

The development of industrial corporations, businesses, and the financing mechanisms that permitted their proliferation may be seen as a set of highly ingenious social innovations—which, in time, drove many technological innovations. Yet these innovations exacted a heavy social price as rural populations were driven off formerly common lands to seek waged labor in cities and factories (Polanyi, 1944). Environmental costs of early industrialization were localized with wastes and pollution mostly within the tolerances of local ecosystems. However, there were widespread losses of forests over Europe in the seventeenth century due to economies based on timber. Cities fostered the growth of business, industries, and trade as well as providing the conditions where markets flourished, including budding stock exchanges, banking, insurance, and other financial and risk-management services.

These social and technological innovations were most evident in Europe, as many observers have noted. Widespread social and technological innovation in China, India, the Middle East and the Americas gave the world astronomy, mathematics, clocks, gunpowder, the wheel, the stirrup, and a host of metal-working and glazing techniques. Yet it was in Europe that most of these inventions became utilized and propagated—facilitated by the development of double-entry bookkeeping, joint stock ownership, and the evolution of many corporate forms of ownership, management, and social contracts. Theologies of Christianity and Judaism, which held that subduing the earth and striving for material rewards fulfilled divine will, gave impetus to the Industrial Revolution.

All these developments, in turn, were fostered by philosophies of the Enlightenment: individualism, property rights, entrepreneurship, the ethic of capitalism, logical positivism, and utilitarianism, which spread from north Europe and secularized European societies. Perhaps humans did not have to wait for the afterlife to find paradise—but could through their own efforts, achieve a better life here on Earth. Far from the beliefs of the Middle Ages that only God could guide human destiny, the upstart businessmen, capitalists, and industrialists came to view their wealth as a sign of God's blessing on their enterprises. For their employees, working conditions and wages were abysmal. The selective co-option of Charles Darwin's ideas of evolution as "the survival of the fittest" reinforced the *laissez-faire* economists' concepts of social Darwinism. The use and spread of markets became institutionalized in Britain where markets had formerly been small, local, rural, and de-linked. Laws were passed ratifying a national system of markets, which increased narrow economic efficiency and vastly increased the scale of industrial enterprises and the social disruption they incurred. By the mid nineteenth century, the spread of business, industry, and the marvels of technology propagated markets widely.

The Industrial Revolution involved much material waste followed by a gradual "dematerializing" of industrial economies as technologies and knowledge advanced. Countering this trend, the increasing role of consumerism, advertising, and credit in Western economies led to a vast increase in per capita material consumption. The main issues of the longer-term viability and sustainability of existing industrial societies have only been recognized for some 25 years and have been addressed concretely only since

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the 1980s. Thus, business and industry have also contributed much to human life support and the evolution of human societies. They have fulfilled many needs, developed technologies and infrastructure, enabling human settlements to support ever-larger populations. Their use of nonrenewable resources enabled millions to enjoy lifestyles of unprecedented comfort and lifted millions more out of poverty. The Industrial Revolution brought humanity many blessings and the very communications technologies it brought are now being used to develop global awareness and the new ranks of global citizens—demanding an evolution of capitalism to meet new life support goals.

During the Cold War, the world experienced a tug-of-war between two ideologies of production, wealth creation, and how to achieve social progress: capitalism versus socialism or communism. In the last decade of the twentieth century after the fall of the USSR, many assumed that capitalist forms of business and industry had triumphed. Yet, there are many faces of capitalism and most societies have mixed economies where markets are circumscribed by social rules and regulations. Economies are always embedded in cultures and societies and their differing mixtures of markets and rules. The shape of businesses and industries is derived from the various "cultural DNA codes" (goals and values) of each society.

The further evolution of capitalism and industrialism has created many business enterprises with ever wide global reach. This spawned a great debate about globalization and produced the growing social backlashes to corporate and financial power. Electronic commerce raises new issues of taxation; other concerns are the decline of states and their domestic autonomy, the emergence of the unregulated US$ 1.5 trillion daily currency trading, and the expansion of finance vis-à-vis the real economies of the world.

Positive trends include: efficient markets moving toward full-cost pricing; "green" technologies, ethical unit trusts; socially responsible investors; active consumers; labor unions; corporate codes of conduct; best practices; worker-owned enterprises; local small and micro-businesses; cooperatives; social, ethical, and environmental auditing. All these developments, and the rapid evolution of global regulations and standards, tend to raise the "ethical floor" under the global business playing field. Such new policies and the activism of civic society may help assure that business and industry will function better as a life support system (Henderson, 1999).

To what extent are business, industry, and transnational corporations (TNCs) promoting or restraining the development of sustainable life support systems? What is happening to corporate social responsibility in the context of globalization, economic liberalization, and deregulation? What are the economic, political, and social obligations of these principal actors in the world economy, and how can they be institutionalized to promote "good corporate citizens"? These are the key questions that will determine how business and industry are reshaped, and their production, distribution, and marketing redesigned, to curb their negative effects on societies and the biosphere. Such a rethink is under way, but will require major restructuring of corporations and their social contracts to fulfill expectations for their positive roles in life support under drastically changing planetary ecological conditions.

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2. Historical Background

Any approach to the broad questions about whether business and industry can play more positive roles in life support requires a look back. In the 1950s and 1960s, the tug-of-war between the private enterprise, market sector and the state was widely believed to be tipping in favor of the state. The sheer scale of technological innovation, already global, seemed to favor large corporations with their broad span of managerial control, ability to capture markets, retain earnings, and lobby governments for research and development. Yet all of this corporate power had called forth from governments concomitant levels of oversight, coordination, and the post Second World War commitments to macro-policy goals of full employment, economic growth, and social welfare typical of the "mixed economies" of western Europe (Henderson, 1988). This larger role of the state was driven by experiences of the Great Depression, the military buildups of the Second World War, the demands of consumers, labor unions, and stockholders to correct market failures and abuses, and the actions of the companies themselves. Andrew Shonfield commented in his influential *Modern Capitalism: the Changing Balance of Public and Private Power* in 1965:

The central question is how far an active government, wielding great and varied economic power, intervening in the detailed conduct of private business affairs, discriminating between one citizen and another on the basis of subtle and complex judgments of the community's needs 10 or 20 years ahead, driving bargains with particular interest groups as administrative convenience dictates, can be subjected to effective democratic control. It is the individual in his private capacity, who is most vulnerable to the erosion of old-style capitalism…and to the crowding in of more and more public power.

Since the 1990s, the *state* is everywhere in retreat and similar fears are now focused on the ascendance of markets and private corporate power in our globalized economy. In formerly socialist countries of eastern Europe and the Commonwealth of Independent States (CIS), formerly state-owned corporations have been privatized. State control of banking and capital accounts has been superseded by global finance and currency markets. The seesaw struggle of private enterprises and expanding markets versus the state has existed at least since the fifteenth century. European kings chartered private corporations with limited liability for purposes of exploitation of foreign lands and resources. Often such expeditions were bankrolled by monarchs using tax revenues and involved piracy, subduing indigenous populations, extracting gold, minerals, local treasure, slave trading, and other opportunities for "profit," often by outright plunder. In contrast, the Chinese naval expeditions of the fourteenth century, in majestic, silk sailed ships much larger than those of Europe, displayed their fine porcelains, silks, and manufactures—often disbursing them to astonished inhabitants of coastal Vietnam, Thailand, Burma, and India. In Britain, the common law tradition produced legal systems and contracts protecting private property, which fostered private business initiatives. Early corporations were offered charters limiting their liability for losses incurred by their promoters and private investors in exchange for the substantial risks of injuries, death, and destruction undertaken in profit-seeking ventures. These early charters were narrowly circumscribed social contracts to individuals, which suspended some of the rules applied to all other citizens. While the goals of the rulers of that time

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were possible rewards in treasure, profits, and new lands claimed for the nation, the private investors sought personal fortunes that could be gained from such corporate risk-taking.

Early enterprises from the British East India Company, the Muscovy Company, the Levant Company, and the South Sea "Bubble" (a government-backed venture) attested to the effectiveness of this releasing of the "animal spirits" of early capitalism. The French experimented similarly in a trade agreement with Britain: the Eden Treaty of 1786, when earlier "etatist" policies of King Louis XIV and his minister Jean Baptiste Colbert were temporarily dominated by the early "free market" theories of the physiocrats (Henderson and Lasher, 1967). While the French reverted to the statist model of national expansion, the British entrepreneurs had invested in everything from The Treasurer and Company of Adventurers and Planters of the City of London for the First Colony of Virginia (for shipping settlers to America, with 659 private investors at 12 pounds, 10 shillings each); the Joint Stock Company for Transporting One Hundred Maids to be Made Wives; to ventures for a "wheel of perpetual motion"; a system of wool making "to employ all the poor of Great Britain"; and even a Company for Carrying out an Undertaking of Great Advantage But No One to Know What It Is (this venture garnered two thousand pounds before its promoter disappeared with his loot into the London fog).

Even in these early enterprises, with their broad charters of rights untrammeled by responsibilities, the rights of investors were spelled out: each stockholder had one vote in the company's "General Court" of shareholders, regardless of the size of his investment (few women were able to own or control property autonomously). After the collapse in 1721 of the South Sea Bubble (which resulted from the British government's grant of a vast but vague trade monopoly for South America and the Pacific), thousands of angry investors protested to the British Parliament—but without redress. British and other "venturers" soon turned to capitalizing the United States of America. By the end of the nineteenth century, total foreign direct investment in the United States was some US$ 3 billion—mostly in railroads, which by then had superseded the earlier canals. British stockholders were routinely bilked by US-chartered railroad corporations and their robber baron directors, who often issued falsified reports, such as those of Jay Gould, who was finally ousted from the Erie Railroad in 1882.

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Biographical Sketch

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