

11/30/17

Math 89S/Bray

Second Paper

“Running the Government Like a Business”: Corporate Philosophy and Democracy

“Running the government like a business” is a slogan common among politicians, from Donald Trump to Al Gore (Harvard Business Review, 2017). Used to evoke images of efficiency, accountability and American values, it’s a powerful symbol that has heavily influenced recent American political discourse. However, despite the phrase’s appeal to many Americans, it is almost certainly bad advice. In fact, running the government like a business, whether from a structural or philosophical standpoint, is a flawed method of governance in a democratic society.

This philosophy has already had a major impact on the way the government fulfills its duties in the modern age. As a paper by Richard Box puts it,

Evidence of the expansion of market concepts in the public sector may be found in the literature and practice of public administration in an emphasis on a constellation of cost-cutting and production management concepts taken from the private sector, currently drawn together as new public management. (Box, 1999, p. 21)

The idea has grown increasingly popular as the government has expanded, becoming more divorced from the common person. Finding it impossible to influence an administrative giant like the federal government, a large portion of the American populace has instead sought for a customer-business relationship with the government as opposed to the traditional model of self-governance.

The arguments for “running the government like a business” seems convincing. Some analysts propose that following corporate principles will “bring efficiency” to government administration (Fox News, 2016). Others, such as Chris Edwards of the Cato Institute, claim

that a lack of profit margins means that the government has become “bloated” (Fox News).

Additional common reasons include associating free market ideals with democracy and believing business-guided governance is more fair (Gangl, 2007). On the surface, this claim makes sense. These practices have worked for American business for decades and to many the government seems ineffective and flawed.

However, reality does not bear this argument out. Consider first the structural objections. According to a paper by Julia Beckett, there are three main types of business structures (Beckett, 2000). The first is sole proprietorship, in which one person has total control over a business by virtue of being its only owner. This structure is clearly at odds with a functioning democracy: it is far more akin to an autocracy than any democratic form of government. However, this is the most common business model in the United States, so calling for the government to “run like a business” incorporates some of the principles of sole proprietorships. It is no coincidence that many commentators argue that a corporate-minded government would be more decisive and responsive: this is a common trait of sole proprietorships. Furthermore, a desire for this form of governance is linked to America’s value of the individual: when pundits blame a high-ranking official (especially a president) for policy decisions, they are implicitly referencing this business model. However, there is a key difference between a sole proprietorship and a democratic government: democracies are intended to serve the will of the people, whereas a sole proprietorship is intended to serve the will of only its owner. Thus, the two are fundamentally incompatible.

The second business model is the partnership (Beckett). This model consists of two or more (up to dozens or even hundreds) partners who own the business. The framework for a

partnership can be defined by each business but is based in the Uniform Partnership Act, which enshrines certain rights afforded to each partner in a business. Although partnerships are by far the least common form of business in the United States, they often supply the very experts, hailing from investment banks such as Goldman Sachs and consulting firms like McKinsey, meant to bring corporate policies to government. This business model, similar to a sole proprietorship, makes little sense when applied to democratic governance. A partnership is owned by the partners in the business, whereas a democracy is “owned” by the people. While it would be possible to envision an analogy in which every citizen of the United States is a “partner” in the government, such a framework is so divorced from standard business practice, in which there are a set number of partners for whom other employees work, that it would be almost useless. When this term is applied to government at all, it is usually in a very loose sense implying cooperation between members of the government--a far cry from the actual structure of running the government like a partnership.

The final business model to consider is the corporation (Beckett). A corporation is a legal entity distinct from any one person within the business, whose ownership is determined by the amount of shares owned by various shareholders. Shares can be held by one person, distributed among several shareholders, or publicly traded on a stock market and thereby owned by many people. Shareholders in a corporation elect a board of directors who appoint management that run day-to-day operations. As the most successful form of business--almost every major business in the United States is a corporation--when the average person argues that the government should be run like a business, they are almost always using a corporation as their reference point. Indeed, the corporation most closely mimics the organizational structure of the

United States, in which citizens can be equated to shareholders, elected officials to a board of directors, and civil servants to management and employees. The widespread success of American business (albeit with major setbacks along the way) makes this image an appealing one to many Americans, and an effective rallying cry for politicians.

However, the structure of a corporation is, upon closer examination, poorly suited for a democracy. Shareholders have little say in the actual decisions of the government. There is no obligation for the board of directors to disclose to shareholders the direction of the company, future plans, the true financial situation, or the ongoing activities of the business, because all this information is seen as a valuable tool for competing corporations (Beckett). Furthermore, shareholders have few avenues of influence in a corporation. Their main control over a company--electing directors--is hamstrung at every turn:

In principle, the law is intended to give shareholders a significant amount of control. In practice, it does not always work out that way. Technically, shareholders must regularly elect or reelect the board of directors, but shareholders cannot easily remove a director whose term has not expired, and shareholders do not, typically, participate in the nomination process of new directors. (Blair, 1995 as cited in Beckett, p. 198)

Additionally, shareholders have limited avenues for making their concerns heard. The only real tool available to them, besides the aforementioned limited role in the election of a director, is selling their stock (Beckett). In other words, a shareholder is either loyal to the company or gives up control over it. Finally, shares of stock are able to be bought or sold, so voice in the company is intrinsically linked to financial resources.

A democracy cannot function in these conditions (Beckett). First, one of the cornerstones of American democracy is freedom of information, appropriately guaranteed by the Freedom of Information Act, which gives every citizen the right to know about any aspect of the United

States government (so long as it does not violate one of the nine exemptions to the act) (FOIA). This necessity of information is in contrast to corporations, who hold shareholders in the dark about a wide variety of issues essential to the running of the company. Second, democratic theory requires that the candidates be selected by the will of the people. While shareholders in a corporation have some say in the process, their influence is severely limited. Not only that, citizens do not have the power to sell their stock and disassociate from the government, because they are citizens of the country no matter what. Finally, the relegation of voting power to financial power undermines the concept of “one man, one vote” and more closely mirrors some variant of a plutocracy than a democracy.

In short, modelling the government after any form of business--even a corporation, which at first glance resembles a functioning democracy--is fundamentally flawed. The structure of a business, meant to represent ownership and intended to maximize profits, is incompatible with the tenets of a democratic society.

However, the structure of governance is only one facet of what it means to “run the government like a business.” Many mean it more figuratively, arguing that business-management philosophy should be applied to government administration. Former Speaker of the House Newt Gingrich, for one, is in favor of this point of view, stating, “Entrepreneurs are hard-charging, aggressive people. There will be much more action, inclined to cut through bureaucracy and red tape [in a business-minded White House]” (Fox News). This is a common refrain: businesses are more responsive, more decisive, more efficient. However, applying this philosophy to a democracy is problematic.

When public officials approach governance with a corporate mindset, “public managers increasingly regard the public as customers to be served rather than as citizens who govern themselves through collective discourse processes” (Box, p. 22). The government is no longer ‘for the people, by the people,’ but instead ‘for the people, by bureaucrats.’ To some extent, this is a natural outcome of an expanding government that is too large for the citizens of the country to engage with on a day-to-day basis. However, corporate-minded government only exacerbates this problem from a natural consequence of a large democracy to an intentional repurposing of the formerly democratic infrastructure.

Furthermore, as the government becomes increasingly distant from the populace, the question of who is truly in charge becomes more apparent. When there is a massive administrative infrastructure that carries out the majority of policy, that does not change at the will of the people, that is defined by corporate concepts like efficiency and customer satisfaction, that is apolitical, it causes the government to grow less democratic in nature. The government apparatus becomes, in short, absent any “day-to-day democratic oversight” (Cohn, 1997 as cited in Box, p. 21).

Finally, corporate governance is at odds with the principles of good democratic governance in general. Corporate management values “autonomy, a personal vision of the future, secrecy, and risk-taking” and “domination and coercion, a preference for revolutionary change (regardless of the circumstances), and a disrespect for tradition” (Terry, 1997 as cited in Box, p. 33). This approach is clearly at odds with the American constitutional democracy, which values slow change (as evidenced by checks and balances, the institution of the Senate, and the mechanism of judicial review), fully-informed input by the citizens of the nation, and

“accountability” (Terry as cited in Box, 33). “Running the country like a business” is not a different approach to democratic governance, but instead an antithesis that undermines the value of the American democracy. In business-like government, one can expect “the possibility of unexpected program outcomes, uneven treatment of citizens, and behaviors that have not generally been thought of as consistent with public service” as administrators become more concerned with making money and increasing their own authority rather than serving the public good (Box, p. 35).

This is not to say that there are not some benefits to comparing business and government. It has had great influence in American history. During the Municipal Reform and Progressive eras, citizens were encouraged to see government as a business in which they were owners (Beckett). However, the difference between the historical use of the term and the modern-day application is the formerly it was a tool to encourage active citizen participation in government, whereas now it is used to relegate citizens to customers who “are people to be persuaded and sold an image, a product, or a service rather than people who deliberate and decide” (Box, p. 36). If society is to look toward business for guidance in governing, it should be from the point of the view of the owner--after all, citizens ‘own’ a democracy--than of the customer.

Even in the modern day, though, there are some positive aspects to running the government like a business. According to Box, “Anecdotal evidence as well as scholarly research indicates that market-based reforms have produced some desired changes in the way government operates in the United States, as well as significant changes in several other nations” (Box, p. 33). There are in fact some aspects of the American government that are bloated, inefficient, or overly political that could benefit from the application of corporate management

principles. However, when this philosophy is applied too widely or to an extreme, it goes from a useful tool to harmful. Furthermore, even when limited to specific instances, its success can come at the cost of other American values, such as “fairness, justice, representation, or participation [that] are not on the radar screen” (Terry, as cited in Box, p. 33).

In addition to being harmful, as stated above, the ‘customer-business’ paradigm is also unrealistic in application. Many government services have multiple ‘customers’ with competing needs and desires. As the Box paper states,

Many public agencies cannot easily identify their customers because the public they deal with is divided into a variety of individuals and groups with conflicting goals. Many others are regulatory or stewardship agencies for which the immediate client may not be the true beneficiary of the service. An example of the former would be a school district, for which the customers could be students, parents, or all adults in the community. Examples of the latter could include a restaurant regulated by the local health department (Is the department’s customer the restaurant owner or the people who eat at the restaurant?), or the forest service (Is the customer the wood products industry or current and future generations who would use the forests?). (Box, p. 36)

In short, it is simply impossible to boil down the complex nature of the government into a profit-seeking business. While a business can make decisions based on a simple criteria--profit--the government has several competing purposes that are not adequately reflected by the customer-business model. Instead, government decisions should be reached by a multi-faceted approach that takes into account competing interests through robust debate, rather than simply working to satisfy an idealistic customer.

All this, of course, raises a question: if running the government like a business is in fact so harmful to democracy, why is it then so popular among the American people? The answer lies in the concept of framing. Framing is “the process whereby the news media or political elites define the terms of an issue debate or political manner by highlighting specific

considerations or aspects of an issue” (Gangl, 663). The effects of this process on the American psyche in regards to business and governance was documented in a 2007 study that found participants who receive questions that frame democratic institutions (especially partisan debate) as a positive influence on government were far more likely to disapprove of running the government like a business, relative to people who receive questions that present democratic institutions as a negative influence (Gangl). The explanation presented for this varied reception is that Americans as a whole have a limited understanding of the institutions of democracy, so the tone in which they are presented influences their opinions much more than the actual reality of the situation (it is no coincidence that the more educated participants in the study found corporate governance less appealing in general).

Thus, the reason that the application of business practices to government is so prevalent in American political discourse is that there has been a concerted effort by politicians to present it as such, in order to lessen citizen oversight on government. From an economic point of view, a civil servant can be viewed as “concerned less about the public interest (however defined) and more about making money and maximizing individual power and freedom to act without review,” and so pushing for a philosophy that advances those interests--such as “running the government like a business”--is a natural result (Box, p. 35). Moreover, fostering a corporate-minded culture only makes it more acceptable to hold those priorities, intensifying the disconnect from caring about public interests.

As this philosophy has grown more popular, more politicians have turned to it as a rallying cry, further entrenching it as a legitimate approach to government. The George W. Bush administration, for example, was “very public in its efforts to suggest that imposing a business

model on government improves the efficiency and effectiveness of democratic politics” (Gangl, 663). Now, it is a standby for politicians that rail against big government and governmental waste.

Thus, the philosophy that the government should run like a business is a flawed one, at best. Its precepts do not accurately reflect the nature of government, and following corporate principles in running the public sector is not in line with the democratic ideals on which America was founded. At worst, the philosophy was put forth by politicians and bureaucrats hoping to divorce the government’s day-to-day activities from the oversight of the citizens of the country. The truth likely lies somewhere in the middle: it is promulgated due to its surface-level appeal to large swathes of the American populace and is simultaneously capitalized on by public servants hoping to increase their political power and remove democratic restrictions on their actions. No matter the case, the evidence bears out the conclusion that running the government like a business, whether from a structural or philosophical point of view, is a poor strategy in a democratic society.

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