Country and Company: Part I - Divergent Goals

While each economic crisis tends to drive the preceding one out of our minds, it is worthwhile to review the recent sequence of events and ask where did all this come from? First we had globalization and offshoring destroying productive industries and, with them, productive and well-paying manufacturing jobs. Then it was the financial crisis, with the sudden disappearance of familiar names like Merrill Lynch and Lehman Brothers; next came the plunge in share prices on the stock exchanges followed by the auto company crisis. Now we have a full-blown economic recession with job losses and uncertainty everywhere.

While it is tempting to blame this succession of crises on greedy executives, sub-prime mortgage pushers and others of that ilk, it is in fact much more a system problem than a sudden widespread collapse of human nature. Since 1980 we have gradually developed an economic system that drives corporations to maximize profit at any cost. If corporate leaders conform to this goal, they are rewarded with huge sums. If they don't, they are likely to be replaced by those who do.

If you are the CEO of a major firm and can increase your profits by offshoring, why not do it? You would be successfully fulfilling what has become the dominant purpose of the corporation: to maximize profit at all costs. Wall Street will cheer, economists will say that what you are doing is inevitable because of "comparative advantage," and your compensation -- tied to stock options and bonuses -- will soar to heights that earlier generations of CEOs never dreamed of. If you don't relocate some of your operations offshore and your competitors do -- and increase their own profits in the process -- you are unlikely to last.

If you head a major financial services firm and see the high profits that others are making on dubious subprime mortgage-based securities you might well say, as Chuck Prince, the former CEO of Citigroup, did in 2007: "As long as the music is playing, you've got to get up and dance." Commenting on Chuck Prince's remark, John Gapper wrote in the Financial Times, "His offense was not that he misunderstood or misstated how banks have operated over the past few years but that he blurted out the truth rather too openly."
Although this pursuit of profit at any price may well have a negative effect on the economy as a whole, the response of the previous administration was to endorse offshoring and maintain unlimited faith in the operation of free markets. In the absence of any accepted view opposing what was and is going on, how can we expect the individual CEOs and boards of directors to act against their own self-interest?

To a large extent our government has not yet realized that the self-interests of our corporations, especially our large global corporations, can diverge from the interests of our country. We need to find ways to fundamentally change the motivations of corporations to align with those of our country.

Is there an alternative to this profit-before-everything approach? Yes there is, and it is a very natural one. Let us take a historical perspective.

**A Historical View**

From the earliest times until the middle of the 19th century most of the world's work was done on small farms or in small shops. This traditional world was dominated by agriculture and the need to provide food. Large organizations, with the exception of the Army, the Navy and the church, were almost nonexistent. This was the also the world in which Adam Smith and David Ricardo lived and which they described in their influential economic writings.

The Industrial Revolution of the late 1800's changed that world. Steel mills and factories sprang up and the agricultural population shrank as people migrated on a large scale to the new centers of production. Economic activity became increasingly concentrated in factories, and production increasingly became the province of large organizations. Even in agriculture, the family farm increasingly gave way to larger agricultural corporations.

This emergence of industry and of steadily improving technology, which of course continues today, has fundamentally changed our way of life. The goods we consume today cannot be made at home, on a family farm, or in a small shop; they are too complex and require large organizations to create them. You cannot manufacture a car in your garage; it takes a large-scale organization to do it. The food we eat is not produced by a family on a nearby farm, but is made by large organizations on highly mechanized farms with machinery produced by other large organizations, and then transported on highly organized networks to huge outlets. The same is increasingly true of services; you cannot organize a telephone network on your own.

Today's goods and services are primarily created by organizations, not individuals. To contribute to the economy today, an individual usually must be part of an organization. Being part of an organization is what most people must do in the modern world to earn a living and support themselves and their families.

Therefore the fundamental social role of organizations, usually corporations, is both to produce the goods and services that are consumed in the modern world and to enable people to participate in that production, so that they earn a share of the value produced for themselves and their families.
In view of all this, there should be two goals that the United States wants of its corporations. I call them the Ketchum Goals as I am writing this in Ketchum, Idaho.

The Ketchum Goals:

(1) We want companies that are productive, each contributing as much as possible to the total of goods and services produced in the United States. It is the sum of these efforts that make America a prosperous nation.

(2) We want these companies to provide productive and well-paying jobs so that the value the companies create is widely shared by Americans. It is this widely shared wealth that gives the nation and its people economic security and stability.

What we want and need from our corporations is significantly different from the present goal of profit maximization. What we want and need is more akin to the broader role that corporations played during the prosperous 1950's and 1960's when interests other than those of the top executives and large shareholders were also taken into account. We must realize that since that time the goals of this country and the goals of its corporations have diverged.

Are there things we can do to move toward the Ketchum goals and change the system that is producing such destructive results?

It is beyond question that other countries are actively working to advance the first goal the development of productive industries, in their own countries. They often do so by employing an active government bureaucracy specializing in industrial development. These countries are subsidizing important industries and cutting special deals with U.S. companies to bring their technology and know-how in exchange for financial advantages or market access.

However, the means employed abroad are not those that have historically been used at the national level in the United States and are often not well suited to our tradition or our government's actual capabilities.

So the question remains: are there things that our country can do to advance these two goals? Can we foster productive companies and industries? Can we provide individuals with productive jobs and a good standard of living? Are there specific actions that fit our tradition of minimal government interference and build on our actual capabilities, and that can be pursued in a globalizing world?

In Part II of Country and Company we will address this question and find that the answer is a very definite "yes." Once we have a clear view of what the country needs from our corporations, we will find that there is no shortage of ways, compatible with our own history, to move toward these goals. There are incentives that we can give corporations that make it profitable for them to act in ways that benefit the country; there are incentives that will attract more productive companies; and there are ways to better take into account the interests of all those who contribute to economic growth. In short, In Part II we will describe how to better align country and company goals.