Will Corporations Serve—or Exploit—the Human Family?

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James Hinton was an effective CEO of a medium-sized public corporation specializing in kitchen equipment. He was also a committed Christian, and he tried to bring his faith to bear in the way he ran the company. As a result of his fairness and real concern for those who worked for him, the company had high morale and strong worker loyalty. Suppliers and retailers were glad to do business with it. Because he insisted that wherever his factories were located, management would be good citizens and environmentally responsible, the public relations of the company were excellent. He had also established a good record of profitability.

Nevertheless, he was under pressure from his stockholders. Competitors had increased their profits faster than he had. Some of his major stockholders were pressing him to close unionized factories in the United States and move production to Mexico. They also urged that new technology justified reducing middle management positions. Taking such steps would increase profits and raise the price of the stock.

Hinton had bent to the new realities. He had persuaded unions to moderate their demands because of the danger that factories would be closed if costs rose further. He had stopped replacing middle management who retired. But he resisted closing factories on which whole communities depended and laying off managers who had worked faithfully for the company for years. The human costs were simply too high.

Now, he knew, there was a good chance that he would be replaced. To most of his stockholders, higher profits and stock prices were more important than what happened to employees. Well, he decided, he would stand his ground and be voted out, if that was his destiny, with his principles intact. Sadly, he reflected, his good conscience would not help his employees.

A Profound Tension

The opening story illustrates a profound tension. Corporate leadership consists of all kinds of people. Many of them are persons of conscience concerned for the good of humanity and the future of the earth. But the present global corporate system exerts pressures of a different sort. Many corporations submit to these pressures and commit themselves to little else than the bottom line. A few resist in various ways. The behavior of corporations, and the system that presses them in a negative direction, play a large role in determining the future of humanity.

Indeed, corporations have, arguably, become the most important institutions in the world. Of the 100 largest economies in the world, half are nations, and half are corporations. Their role in the

United States is enormous. Incorporated businesses account for well over two-thirds of the U.S. economy's privately produced income. In manufacturing, transportation, public utilities and finance, corporations do almost all of the nation's business. In trade and construction they do about half the total business.

Corporations exercise vast influence on public policy. While regarding regulatory bodies with suspicion, corporations support government policy and intervention consonant with their own interests. Corporations wield great political power through campaign donations and the provision of lobbyists and experts who assist understaffed legislators in drafting bills and providing analysis. The proverb fits: "He who pays the piper calls the tune." Few of us—and few public interest organizations—can afford comparable resources to represent our interests.

Through their control of the media, corporations largely shape our knowledge of, and opinions about, what is going on in the world. Tens of millions of people work for them and have their lives profoundly shaped by the internal policies of corporations. Most middle class Americans have investments in corporations, and we collectively put pressure on these corporations to maximize profits and growth even at the cost of other values. It is past time for Christians to study and appraise these institutions, both their role in the larger society and their effect on the lives of those who work in them.

Part One: The Role of the Corporation in Society

Stakeholder and stockholder capitalism

Given the importance of corporations for all sectors of society, we should consider the groups that have an especially large stake in their ways of functioning. The major stakeholders, in addition to stockholders and managers, are employees, customers, suppliers, neighbors, and society as a whole as represented by government. In Europe and Japan the form of economy that has developed around corporations is called *stakeholder* capitalism. Obviously, corporations have a commitment to those who have invested in them, but in this system they are also understood to have responsibilities to their other stakeholders.

Where this system prevails, corporations are expected to promote social harmony and welfare. High profits are assigned less importance than economic stability. Moreover, European and Japanese policies are intended to limit hostile and foreign takeovers.

Where stakeholder capitalism prevails, largely as a result of the activity of strong unions, there is an excellent public safety net for employees. Corporations have much less freedom to dismiss employees; those who are dismissed are buoyed up by unemployment insurance for up to four years at up to 90% of their last wages; and there is a great deal of retraining available. Critics of stakeholder capitalism argue that this system cannot compete in the global market. Yet in at least four European countries—Austria, Netherlands, Ireland, and Denmark—the economy is growing faster than in the United States, unemployment is lower, and exports are increasing.

A fundamentally different understanding of the corporation and its role in society underlies the *stockholder* capitalism of America. Here, a firm's fundamental purpose is to make profits for its investors or shareholders. The firm has minimal legal obligations to employees and/or to the communities in which its facilities are located. Moreover, in the U.S., a business corporation is regarded as a commodity that is bought and sold like any other commodity, without regard for the social consequences of such transactions. Waves of leveraged buyouts and corporate takeovers in the 1980s and 1990s were extreme examples of this mentality.

Stockholder corporations often ignore that general social welfare can contribute to profit. Some economists believe that it was large public sector investments in the late 1940s and 1950s—in roads, infrastructure, education, research and development, etc.—that built the foundation for our great success of the 1990s. Unfortunately, corporations in general have not sufficiently recognized their long-term interest in such investments. The problem is that their payoff is realized in decades, not years, whereas corporations typically aim at profits in the short-term and try to divert public expenditures into areas providing benefits sooner.

If we broaden the definition of the "stake" in corporations, then many types of stakeholders emerge who are less visible. Humanity as a whole has a huge stake in the way corporations in the aggregate shape society.

At present the forces at work in our economic system tend to divide people into categories: those who benefit from its workings—an elite who can sell skills that are highly valued in the market; a much larger group who "serve" the economy in humdrum jobs that offer few chances of personal growth and little more than a basic remuneration; and the vast "underclass", sometimes called the "disposable people." These include those in the United States, perhaps 20% of the population, who live below the poverty line, and the millions in the countries of the South who live in destitution.

These poor and destitute people have an enormous stake in corporate policies that hurt them—through actions that limit governments' ability to help them, through worsening of their natural environment and exploitation of their natural resources, and through exploiting them as cheap labor. The poor have potential power in their numbers, but they can exercise it only if they work together. Today there are peoples' movements in many countries that undertake to gain power through solidarity.

Planet Earth is a stakeholder. Its life-giving resources are being depleted, and those who seek short-term exploitation rather than long-term compatibility with Earth are despoiling it. From the perspective of humanity as a whole, the failure of most corporations to take this stakeholder into account may be their most important failure.

Increasingly, corporate leaders are reflecting on their responsibility to this wider pool of stakeholders. They implement their social responsibility through policies against the use of child labor; by conforming to the laws of their host countries; paying the prevailing wage; and observing health and safety regulations. Some corporate leaders are even responding positively to pressures by consumers to have their factories monitored by local nongovernmental organizations.

Several leading corporations, including Royal Dutch Shell and Ford, have withdrawn from the organization they helped to set up to oppose efforts to slow global warming. Many are genuinely trying to reduce pollution and to use resources more efficiently.

There are important efforts to show that environmental responsibility need not conflict with corporate interests. The Rocky Mountain Institute, established by Amory and Hunter Lovins, has long been a leader in encouraging corporations to recognize that their profits need not depend on unsustainable exploitation of resources. For example, it persuaded a number of electric utilities that encouraging the use of more efficient appliances, thus slowing the increase of usage of electricity, actually improved profits. Today it promotes what it calls "natural capitalism" on a broader basis, and many companies are interested. This entails the recognition that whereas in the past labor was scarce and natural resources plentiful, it is now natural resources that are in short supply. In future, the Lovins argue, profits will be made by those who economize in their use of these resources.

Strengths and Weaknesses of Corporations

Corporations serve the public in many ways. They have been the driving force in the development of new products and services that have led to a steady increase in the quality of life over the past two centuries. They have increased the amount of capital available for investment. They have provided millions of jobs, and a comfortable retirement for many, employees and investors alike. In addition to creating economies of scale and raising capital from a large number of investors, corporations off global perspectives and more easily transcend social prejudices.

Freeing themselves from parochial perspectives, the leaders of large corporations can think in global terms both about the present and the future. Their global interests often favor international cooperation and peace rather than ethnic and national rivalries. In South Africa, transnational corporations sometimes led in breaking down apartheid policies. Today in the United States, some corporations treat their gay and lesbian employees more justly than do most churches and government agencies, providing them medical insurance coverage and family benefits for their partners.

But corporations also have weaknesses. Most firms seek to exploit limited resources in the short term, trusting future generations to find alternatives. The short-term perspective and the failure to invest for the long term derive from understandable personal considerations as well. Many executives and managers are in their positions of power and influence for a very short time—perhaps 3-5 years. They are unwilling to make investment decisions whose payoff will occur after they have left their positions.

Corporations additionally tend to deify the market, with many Americans believing that "the market"—the "invisible hand"—will correctly synthesize a proper "public interest" from the self-interest of millions of individuals, though many economic thinkers recognize the need for some regulation in assuring the proper operation of markets.

Corporations almost universally displace or externalize costs. At present, the cost of producing a product is figured on the costs of the raw materials and labor that go into it, plus its share of capital investments and overhead. The cost does not include depletion of the raw materials, the product's effects upon the environment, its disposal, or the effect upon people of producing and using the product. Life cycle costing takes all of these additional factors into consideration. The price of the product has to be higher, but the taxes that would be based on these costs to society would be used to ameliorate the long-term negative effects. This would be a realistic way of making a corporation's activities pay their own way.

Finally, in the past few decades the gap between the rich and the poor in the United States has grown greater. Stockholder corporations have led in creating this gap. The widening of the gap accelerated in the late nineties. In 1995, average corporate CEO received compensation 141 times as great as the average factory worker. By 1999, that ratio had increased to 475.

Governmental Responsibility for Corporations

Although corporations have increasingly influenced government in its exercise of its powers, government agencies still affect corporations extensively. The Security and Exchange Commission regulates the stock market. The Justice Department enforces anti-trust laws. There are many laws designed to protect health and safety and the environment that restrict what corporations can do.

In principle, governments have a still more fundamental role in relation to corporations. Governments charter them. They have the legal power to modify or revoke those charters when corporate actions work against the common good. They are reluctant to do so because the charters lead to benefits for the governments as well as for investors in the corporations. Further, if one state revokes a charter, the corporation will find another that will grant it.

Part Two: Corporations' Treatment of Employees

Dehumanizing Pressures in Corporate Life

In addition to the insecurity of employment experienced by so many employees, many suffer from discrimination. Despite important exceptions, including those noted above, on the whole corporate culture in the United States reflects, and sometimes exacerbates, the sexism and racism of the wider society. Women and persons from minority backgrounds remain badly underrepresented in the boardroom and in the upper echelons of management. The "glass ceiling" has not disappeared. Despite laws against sexual harassment and broad social agreement that it is unacceptable, such harassment continues to be widespread. Similarly, more or less overt racism often makes life within the corporation uncomfortable for persons from ethnic minorities, despite laws intended to end discrimination.

Hostile takeovers are an additional source of suffering. Socially responsible corporations are a popular target for such takeovers. A sad example is the takeover of Pacific Lumber Company by Charles Hurwitz. Pacific Lumber was a family owned lumber company that was highly responsible ecologically and committed to the wellbeing of its employees. Hurwitz saw that profits could be made by changing those policies and proceeded to do so.

Humanizing Developments within Corporations

Thirty years ago, retired AT&T executive Robert Greenleaf wrote a pamphlet, *The Servant as Leader*, to show how executives could contribute to a more caring society. He defines a servant leader as one who "makes sure that other people's highest priority needs are being served" so that they "become healthier, wiser, freer, more autonomous, more likely themselves to become servants." The servant leader also asks "what is the effect on the least privileged in society…?" Greenleaf's work has been influential. In 2001 several hundred corporate executives attended the

Greenleaf Center's Annual Conference to share their experience, challenges, and successes in implementing servant leadership.

Machines vs. People
The Financial Accounting Standards Board (FASB) sets the accounting rules used by American business.[i] The FASB's rules count "things" as assets (e.g., buildings, capital equipment, machine tools) and expenditures for them as investments. Conversely, expenditures for people are expenses, not investments. The largest single expense for the vast majority of organizations is payroll, that is, people.

The implications of these rules are among the unwritten rules of business:

- Maximize the effective use of assets through investment.
- Minimize expenses by keeping pressure on to keep them low.

Among other things, this means:

- Acquire useful things.
- Squeeze people out.

As a result of the application of this policy a recent study by Walker Information Inc. showed that three fourths of all employees in the United States do not want to be with their present employers two years from now. Gary Kaplan of Kaplan and Associates commented that "we have communicated to the labor market this concept that people are expendable, that people are not much different from office supplies."

Affirming People
Squeezing people out is called "downsizing," and there has been a great deal of this in recent years. It is the lemon theory of management: you squeeze them until they are dry, then you throw them away. Nevertheless, the widespread assumption that it increases profits is a doubtful one. People make contributions to corporations that are not replaceable.

During the last business recovery, many large corporations downsized in order to improve their profits and stock prices by "removing the fat." This strategy is seldom successful in the long term. Most already profitable businesses that downsized to further improve profits found the improvement very short lived. This is easy to understand. Once everyone is used 100%, a company has very little ability to take on new profit making opportunities. It is likely that the only way they can take on a new opportunity is by hiring and training new people, which is very costly and reduces the potential for added profits. Worse, if everyone is used 100%, and anything goes wrong, customer service degrades severely. Degraded customer service means decreased sales, which immediately leads to decreased profits.

Part Three: A Christian Perspective
Some Christian Principles
1. **Affirming material well-being—**Although some Christians have juxtaposed the life of the spirit with concern for physical well-being, Jesus contrasted himself with the asceticism of John

the Baptist on this point. As Christians we believe that enjoyment of food and drink is good. We hope to provide enough of the world's good things for all. Insofar as corporations help achieve this goal, Christians affirm them.

2. **Affirming knowledge—**Although some Christians have feared knowledge as a threat to faith, most have experienced faith as encouraging a quest for knowledge. Theology is often described as faith seeking understanding, and wherever we have gone we have established schools. The Christian conviction that the God we worship formed the heavens and the earth led believers to develop science in early modern times as a source of knowledge of God and God's world. Insofar as corporations contribute to the continued expansion of knowledge and its dissemination among all people, we affirm them.

3. **Affirming technology—**Although we all recognize that knowledge can be used destructively and that some technology is used in ways that are harmful to human beings and other creatures of God, Christians believe that human beings are authorized to shape the world as necessary to meet our needs. Accordingly, Christians support the advance of technology, so important to corporations, insofar as it enables us to meet human needs more effectively.

4. **Affirming persons over things—**Jesus taught that the Sabbath is made for human beings, not human beings for the Sabbath. All the more, this is true of physical things. Corporations should value people over things and order their activities accordingly. This applies both to their internal operations and to recognizing the importance of various stakeholders outside the corporation.

5. **The earth is the Lord's—**We Christians have been slow to recognize that our modern way of life is degrading the Lord's earth. We have been awakened to this realization chiefly by scientists. Now that we are awakened, we must call on all our fellow human beings to work with us toward a sustainable use of earth's resources. Since most of these resources are now controlled by corporations, the policies they adopt in this regard are of utmost importance to all of us.

6. **The condemnation of greed—**Through most of Christian history, Christians regarded greed as a major sin. It was assumed that individuals who took more than their share impoverished others. The church's opposition to greed, however, has been recently muted. Today we see that the pollution and exhaustion of resources motivated by greed threatens the health of the earth.

7. **The preferential option for the poor—**Catholic liberation theologians have reminded us that the Bible encourages us to view historical events from the vantage point of the poor. As corporate dominance leaves global poverty unalleviated, Christians must work to counter it.

8. **Responsibility rather than fate—**Many people, including many Christians, have supposed that the order of society is simply given, but the prophetic tradition derived from Israel teaches otherwise. Human choices, responding to God's call, play a large role. The present situation of corporate dominance, in which many Christian values and principles are ignored or violated, is the result of human choices. We are called to reassess these choices and make new ones.

Putting Christian Belief to Work
When we apply these principles to our reflections about corporations, they suggest the need for fundamental changes in the ways we relate individually and collectively to corporations. There is much more we should know about these powerful economic institutions—knowledge that the church ought to help provide. There are many things the leaders and employees of corporations can do to humanize their working lives and enrich the common good. There is still more our governments can do to encourage corporations to broaden their vision and behave responsibly.

What Individuals Can Do
1. **Recognize that We are Part of the Problem.** We invest our money to obtain the highest possible return; we purchase products we want with little regard for the process that produces them, the conditions under which the people who carry out that process work, or the source of the raw materials used in it; we follow the values and goals of our workgroup, our supervisor, or our corporation with very little thought. Rarely do we compare our actions against the values we hold dear. We should become much more deliberate in applying our values to these and other actions we take every day.

2. **Inform Ourselves.** Acknowledging our responsibility, the first thing we can do is seek the knowledge that better prepares us for action. This knowledge can be acquired in many ways; but as Christians, we want to be able to relate information about how the economy and its corporations work to our theological, biblical, and ethical understandings.

3. **Organize a Church Study Group.** If your congregation does not have a study group focusing on church and society issues, organize one and enlist your pastor and friends to join in your quest for new understandings about economic justice in the marketplace. Focus especially on the roles of corporations on the globalization process.

4. **Discourage Consumerism.** Individual Christians should lead the way to a basic re-conception of the "good life," one that is less materialistic and more frugal. We can withdraw our personal moral support from the whole religion of consumerism. We can also encourage others to do so.

5. **Encourage Consumer Action.** Individual Christians can promote consumer action. Shoppers can learn to choose products that have been produced in socially responsible ways. Information is readily available about companies that have adopted sensible codes of conduct guaranteeing that their products are made under acceptable standards. Such codes of conduct must have a monitoring system that is transparent and sufficiently independent of the companies to be credible.

6. **Promote the Common Good.** As citizens, individual Christians can be stewards of public life. They can assume leadership positions, support sensible government programs, and confront policies and leaders when necessary. Individuals can support The Partnership for Trust in Government, a project of the Ford Foundation and the Council for Excellence in Government, an alliance of twenty-two non-governmental organizations from industry, labor, the nonprofit sectors, and the media that are committed to restoring a healthy balance between skepticism and public trust in government.

7. **Hold Corporations Accountable.** As stockholders or employees of corporations, individual Christians can hold their companies accountable for conduct contrary to a Christian vision of just, sustainable, and participatory institutions.

What Congregations Can Do
While the church of our beliefs has rhetorically encouraged economic justice, sustainability, compassion, and community solidarity throughout Christian history, its social teachings often have not been accompanied with enough understanding of the real world to transform them into effective proposals for reform. This source of inaction must stop.

1. **Be a Community of Discernment.** The faith community shouldn't pretend technical competence it does not uniquely possess. It can and should, however, engage in moral analysis of laws and economic systems, denounce their morally unacceptable outcomes, name the sin that is causing pain, and insist that more humane policies and systems be sought and implemented. That is an authentic prophetic task of the community of faith in economic life, regardless of the extent or organization of markets.

2. **Broaden Adult Education Programs.** Nor should the church shy away from mastering the technical competence needed to understand the workings of stakeholder and stockholder capitalism. The churches of America are full of people with knowledge about economic life and its institutions. They should be recruited to develop adult education materials and social witness policies to accord with the church's social teachings.

3. **Encourage Education for Community Action.** Individual congregations need also to bring together their theological reflections about economic life with education in community action for economic justice. Biblical and theological reflection is best oriented to active involvement in the world. Active learning best takes place when pastors and members of congregations carry out sustained, collaborative work on social issues. See, in particular, the book compiled by Mobilization for the Human Family called *Speaking of Religion and Politics: The Progressive Church Tackles Hot Topics* for suggestions of social issues congregations may choose to explore.

4. **Celebrate Good Corporate Behavior.** Congregations also may work through their denominations and ecumenical bodies to identify good corporate behavior. The Presbyterian Church (USA), for instance, gave awards to Motorola for putting a stop to its production of parts used to make land mines, and to Starbucks Coffee for adopting a code of conduct for suppliers that requires evidence of adequate wages and human rights for workers.

5. **Link Investment Decisions to Mission Policies.** Congregations that own invested assets need to consider carefully the social responsibility of the policies of those corporation. Congregations and denominations can form partnerships with the Interfaith Center on Corporate Responsibility (ICCR) in New York, which monitors corporate actions on social issues and coordinates the filing of proxy resolutions decrying inappropriate conduct by particular corporations. ICCR and its church partners, for example, have supported resolutions on water pollution and toxic chemical wastes associated with paper production, working conditions and environmental and health hazards associated with foreign-owned factories in Mexico, exploitation of child and slave labor in Third World countries, particularly in clothing

manufacture, discriminatory lending patterns in low income and minority neighborhoods by banks and mortgage companies, pay equity and equal employment opportunity, arms sales to foreign governments, and exorbitant executive pay unrelated to company performance.

What Corporations Can Do

1. **Promote "Servant Leadership."** Although the bottom line is important to all corporations, there is considerable room, especially within large multinationals, for concerned leaders to adopt more humane policies. We commend their use of the "Servant Leadership" concept developed by the Greenleaf Institute.

2. **Develop Codes of Conduct.** Consider, for example, the case study of the garment trade of very large retailers contained in Mobilization's book on *Religion & Politics*. Some companies that once refused to acknowledge their responsibility for factory conditions in other countries now have undertaken more serious internal monitoring of the factories they buy from, and several companies have begun experimenting with different forms of external monitoring using local human rights groups. Still other companies, made aware of serious violations in the factories of their suppliers, work with the contractors to improve conditions rather than exposing the local community to the trauma of plant closings and heightened unemployment.

3. **Improve Employment Security.** The existing economic system is taking away from workers the economic security they previously enjoyed with long-term employers and is replacing it with a new kind of job contract that weakens loyalties and shifts responsibility for staying employable primarily to the workers themselves. In an increasingly turbulent labor market, more and more employers are discriminating against older workers, workers hired on a contingent basis, and workers unwilling or unable to assume the costs of developing new job skills. Conscientious corporate leaders can resist these tendencies.

4. **Value Your Stakeholders.** The adversarial nature of stockholder capitalism discourages the kind of teamwork called for in "learning organizations." A central task of modern corporations is to assemble and coordinate information flows within and among its various *stake*holders. It is not enough to master the intellectual capital contained within a single corporate entity, for its success depends on much wider sources of information, including especially the corporation's technology partners, its suppliers, its customers, and various governmental entities.

5. **Seek Public/Private Partnerships.** Rewarding "best-practice" behavior is something the government can do. For example, governments can encourage corporations to contribute to a portable pension plan, invest at least two percent of their payroll costs in the education and training of their employees, and subscribe to a health plan covering all employees who have been with the firm at least three months. Such companies could also offer profit sharing, employee stock ownership, or some other form of gain sharing to encourage productivity enhancement, and they could work harder at their record of compliance with safety and health standards. Moreover, they could agree to participate in national apprenticeship and school-to-work programs and demonstrate that at least half of their net R&D expenditures over some past period had been placed domestically rather than abroad.

6. **Avoid Environmental Damage.** Motivated in part by the desire to avoid adverse publicity, corporations today are trying harder to appear sensitive to the environmental consequences of many production processes. None wishes to be known as a polluter. Yet the costs of processing hazardous and solid waste are often high, tempting corporations to risk being caught in order to save money. Corporate leaders who care about the environment should seek ways to ameliorate the damage their operations create with the application of new technologies.

7. **Recognize the Timescales Involved.** Sustainability upon planet Earth requires considering effects that may occur far beyond the five-year time frame usually involved in corporate strategic planning. Many effects will not show up for thirty years or 100 years. For some actions consideration of the eons of geologic time is necessary. The first law of the Iroquois had it right: "In our every deliberation, we must consider the impact on the next seven generations."

What Governments Can Do

1. **Investigate Needed Structural Reforms.** In stockholder capitalism, the leaders of most major corporations sit at the top of an authoritarian organization structure that gives them authority over economic resources greater than those of most countries. The law, the financial incentives of their compensation packages, and the board of directors all tell them that this power is to be used almost exclusively to increase shareholder return. The stockholders, moreover, typically are kept unaware of the actions taken in their name for their exclusive benefit and are shielded from any liability for the consequences of those actions. Does this not imply the need for appropriate public authorities to consider seriously proposals to reform the organizational structure of publicly traded, limited liability corporations in America? Is it time for the government to consider limiting the size of corporations, stripping them of some of their special rights and privileges, and finding ways to vest partial ownership in the employees, community members, customers, and suppliers?

2. **Investigate the Financial Accounting Standards Board.** It is hard to question the need for accounting standards. As stated in the FASB mission statement, "Accounting standards are essential to the efficient functioning of the economy because decisions about the allocation of resources rely heavily on credible, concise, and understandable financial information." But are the standards proposed by the FASB the best guide to the allocation of resources by business entities? Currently it is resisting counting the stock options given to executives as expenses, even though they clearly are employee costs and some accounting firms are insisting that their clients count them as operating costs. The Securities Exchange Commission of the Federal Government has statutory authority to establish financial accounting and reporting standards for publicly held companies. However, the Commission's policy has been to rely on the private sector – that is to say, the FASB—for this function "to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest." The leadership of the FASB is drawn from public accounting firms, representatives of large corporations, and major associations of preparers. We note with interest the absence of representatives of the public interest. The Securities Exchange Commission should immediately launch an investigation of the FASB's ability to be stewards of the public interest. The investigation should be broadly based and consider issues such as human resource accounting, life cycle costing, and cost exporting.

3. **Invest in R&D, Infrastructure, and Human Capital.** In the l970s, when Americans were putting in place the investments in highways, airports, safer cities, etc, that would eventually pay off in the l990s, federal investment in these activities averaged better than 2.5 percent of GDP. The percentage shrank dramatically during the l980s under the Reagan and 1st Bush administrations, and it continued to decline under Clinton and the Republican-dominated Congress in the l990s. By 2001, it was down to less than l.5 percent of GDP. Similarly, the federal role in financing education and supporting worker retraining and relocation has lagged. To use unexpectedly high levels of federal revenue to finance huge tax cuts or to needlessly reduce the public debt is poor stewardship, since many of these funds have a much higher use correcting vast under-investments in the very grounding of healthy economies.

4. **Foster Rising Wages.** Higher wages give managers an incentive to work harder at improving productivity. Improved wages and greater job security, moreover, permit families to consume more, which helps generate the aggregate demand that turns potential growth into actual output. To help improve wages, policy reforms should help strengthen unions, increase the minimum wage, expand the Earned Income Tax Credit, and reject those elements of welfare reform that force single parents into the job market with little regard for their skill levels or the state of the local economy. These reforms, when properly implemented, need not lead to the export of jobs to lower-wage countries. Productivity, even more than wages, is the key to rational decision-making in corporate life.

5. **Create Incentives for Public/Private Partnerships.** Encourage corporate best-practice policies of the type outlined above.

6. **Review Tax and Other Legislation Affecting Corporate Costs.** Market forces do not ordinarily reflect all the social and environmental costs of economic activity. The true costs of production should be measured to include not only the usually reported costs of a business, but also the costs of externalities that damage the environment and may lead to countervailing public expenditures for, say, health-care and clean-up costs. If producers were encouraged through various economic incentives to count all costs as costs of production, they would search harder for more efficient ways of organizing production. Then, too, they no doubt would set prices at levels more commensurate with total costs, goading consumers into more environmentally sensitive decisions about what and how much to buy.

7. **Enforce Anti-Trust Policies.** For the last century, public policies have attempted to contain monopoly and curb corporate abuses of market power in two ways: by prohibiting certain kinds of business conduct, and by curbing market structures that are thought to lead to anticompetitive abuses. In recent years, the enforcement of anti-trust laws has weakened, in part because many people have become skeptical of the ability of government to improve the performance of large multinational enterprises. While it is true that the intrinsic rivalry of very large firms, particularly those involved with rapidly changing technologies, has made enforcement of the laws more difficult, these facts do not excuse the government from enforcing the law.

8. **Allow Expansionary Federal Reserve Policy.** Recent experience with unusually low unemployment rates, yet with inflation well in check, suggests that something else—perhaps global competition—has changed public expectations about inflation. The single-minded purpose

of the Federal Reserve Board to control inflation, therefore, seems out of date. The Humphrey-Hawkins Full Employment Act of l978, moreover, instructs the Fed to conduct monetary policy so as "to promote effectively the goal of maximum employment, stable prices, and moderate long-term interest rates." It is time that the Fed understands its mission to be the overall health of the American family.

9. **Establish Fair Trade Based on Labor Rights and Standards.** What is needed is the creation of a *fair trade* regime and a new global economic architecture analogous to what the leading nations of the world developed at the end of World War II. Instead, we are getting a further devolution of power from individual governments to the private sector and growing international economic chaos. One way to counter this trend is for the World Trade Organization to adopt something stronger than existing protections (against slavery, forced labor, the suppression of unions, and the exploitation of child labor) without undermining the incentive for multinationals to invest in developing nations. It should include some form of international labor rights and some minimum form of international standards regarding minimum wages, hours-of-work, health and safety, and benefits. Meanwhile, labor leaders must continue to push for labor rights and standards language in new bilateral and regional trade compacts.

10. **Regulate Global Speculation.** The world economy has flirted with chaos in recent years, as vast amounts of financial capital have shifted venue almost instantaneously. While the experts disagree on the relative merits and political feasibility of debt forgiveness, limited exchange rate controls, taxes on speculative transactions, and the creation of international bankruptcy procedures, there is widespread agreement that capital hyper-mobility is not leading to higher standards of living or rewarding good productivity performance. Capital markets must be re-regulated. Mobilization already is on record as supporting a so-called "Tobin Tax" on speculative international capital movements. Part of any program to civilize globalization will entail reforming and redirecting the key Bretton Woods organization: the World Bank and especially the IMF. At the core of any new system should be a renewed commitment to securing the currency stability that is necessary to underwrite the coordinated international expansion needed to avert worldwide recession. The present largely ceremonial summits of the G7 would need to be replaced with meetings that actually deal with substantive issues. A permanent secretariat should be created with the skills and authority to manage the international payments system.

Alternative View: Michael E. Porter and Mark R. Kramer, "Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth," Harvard Business Review (Jan-Feb 2011), http://www.waterhealth.com/sites/default/files/Harvard_Buiness_Review_Shared_Value.pdf.

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Notes

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