DOES AMERICA STILL WORK?

On the turbulent energies of the new capitalism

Suspicion of "the money power" shows up on almost every page of American history. Within a generation of the country's founding, Jefferson was complaining that "money, not morality, is the principle of commercial nations," and roughly a century later, Woodrow Wilson observed, sadly, that "we are all caught in a great economic system, which is heartless."

Although the mistrust subsided during the prosperous decades after the Second World War, the old suspicions now have returned to the forefront of the public mind. Questions are being asked that for the last forty years seemed as settled as the Civil War. What do business corporations owe the society at large? Should the financial markets adopt a code of Christian ethics? Is it possible to negotiate a merger between the dream of unbridled profit and the hope of a just society?

To pursue these questions, *Harper's Magazine* invited five interested parties to discuss the new rules of the new capitalism.

The following forum is based on a discussion held at the Occidental Grill, a restaurant in Washington, D.C. Paul Tough served as moderator.

PAUL TOUGH
is a senior editor of Harper's Magazine.

RONALD BLACKWELL
is the chief economist of UNITE, a trade union formed last year by the merger of the Amalgamated Clothing and Textile Workers Union and the International Ladies' Garment Workers' Union.

ALBERT DUNLAP
has been involved in the "restructuring" of eight different companies. Most recently, Dunlap, who is known as "Chainsaw Al," was the CEO of Scott Paper; during his two-year tenure he increased the company's stock price by 225 percent, laid off 11,000 workers, and arranged for the company to be purchased by Kimberly-Clark, one of its biggest competitors.

GEORGE GILDER
is a fellow at the Discovery Institute in Seattle and the author, most recently, of Life After Television. *His 1981 book,* Wealth & Poverty, *has been called "the bible of the Reagan revolution."*

EDWARD LUTTWAK
is a fellow at the Center for Strategic and International Studies in Washington, D.C., and a consultant to numerous American and foreign corporations. His essay "The Middle-Class Backlash" appeared in the January issue of Harper's Magazine.

ROBERT REICH
is the United States secretary of labor.

PAUL TOUGH: Last year, the Dow Jones average rose more than 30 percent. The GNP has been rising for four years in a row. Unemployment and inflation are both unusually low. And yet many Americans are more worried than ever about the economy. Why is that?

RONALD BLACKWELL: If you look at the postwar era, it divides all too neatly into two periods: the years between 1947 and 1973, when real family incomes doubled, and the period since, when family incomes have basically stagnated and for 60 percent of families have actually fallen. That's despite the fact that today workers are working longer hours than they ever have, the American worker is more productive than ever, and the country is richer than it has ever been.

ROBERT REICH: There's been a second transformation too. Forty years ago it was quite common for CEOs to see their role as being to balance the interests of their shareholders against the interests of their employees and the communities in which they were operating. For many reasons that attitude has changed.

EDWARD LUTTWAK: I have to say, Mr. Reich, I object to you speaking of the economy as if you were a tourist watching a volcano that you can't do anything about. The fact is, we are living in an era of what I call turbo-charged capitalism—namely, accelerated change—and this era has been brought about by the retreat of the state, by deregulation. The economy is not something that just happens, Mr. Reich. It's something that we as people control. And you, as a member of the Clinton Administration, have much more control than the rest of us around this table.

Let me give you an example. I have recently been reading through the telecommunications bill that President Clinton signed in February, which essentially deregulates the telephone industry. Right now, here in Washington, telephone service is provided by Bell Atlantic. Until the telecommunications bill, Bell Atlantic was what is known as a regulated monopoly. It had no competition. It was not very efficient, but it was a good corporate citizen. It provided stable employment. It also had people on the payroll whose job, in effect, was to keep the community happy. This administration, by deregulating the telecommunications industry, has chosen to force Bell Atlantic into competition. So on the one hand, Mr. Reich, you're criticizing CEOs for their irresponsibility. And on the other hand, you're telling Bell Atlantic: Stop being a good corporate citizen. Stop being a reliable employer. Become lean and mean.

It's wrong to criticize CEOs as if they are, in fact, responsible for anything. They are not responsible. They're blind amoebas. Create a regulated, structured, stabilized environment for them, and they'll behave accordingly.

GEORGE GILDER: The idea that we have come from this stable, halcyon period of existence that is now being destroyed by runaway change is just preposterous. Change is inevitable. Change is good. The effort to stabilize is death. It's death for the economy, it's death for job creation, it's destructive to the society.

ALBERT DUNLAP: What's happening, Ed, is that people in this country are starting to come to grips with the fact that the point of business is to make a profit. Profit, gentlemen, is not a dirty word.

REICH: But free markets do not exist in a state of nature, and neither do corporations. They reflect laws, social judgments about how we're going to organize ourselves. Those judgments reflect some choices, made implicitly or explicitly, about the kind of society we want. And we can't avoid those choices. We may pretend that they don't exist, but we are making them. What is a good society, Al? Profitable companies may contribute to a good society, but ultimately the end is not profits. The end is several other things. For example: We want to have a society in which most people have a chance at a high standard of living. We want a society that has a moral character, in which there is a degree of trust among people and a deepening sense of what it means to be a human being.

Now, the ultimate question we face is: How do we organize our society to achieve some of these things? We can't achieve all of them simultaneously. But let's not simply throw up our hands and say, George, "Change is inevitable, therefore we resign ourselves to any form of change, no matter what it does to people." Al, let's not simply say, "Profits are good," without understanding that there are social consequences here that have to be traded off. Profits are very important, but they're not the only important thing.

DUNLAP: The responsibility of the CEO is to deliver shareholder value. Period. It's the shareholders who own the corporation. They take all the risk. And how does the CEO maximize value? He does that by focusing on profit. But how does he get profit? By making the best products, by building the best facilities, by having the best workforce, by globalizing his company. And, yes, sometimes you have to get rid of people. No one *wants* to get rid of people. It's the most unpleasant thing. My father was a union steward. He was out of work many times. I know what it's like to not have enough money to buy groceries, to have your father out of work. I have great empathy for that.

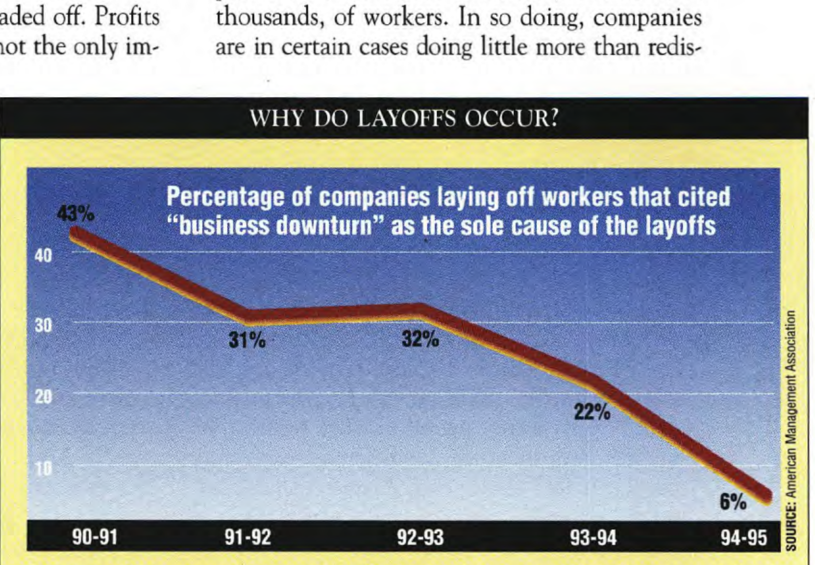
BLACKWELL: But companies have choices about the way they compete. Some strategies—what you could call the high road—help not just the management and shareholders of the companies but also the employees, the communities, the country. Other strategies—the low road—help only the shareholders and the privileged executives of those companies.

REICH: I think we're talking on two different levels here. The first question is: What are the rules—the security laws, the tax laws, the copyright protections, the bankruptcy laws—that shape the markets? What are the rules that tell a CEO what he ought to be doing in the short term or the long term? For example, should shareholders who are patient capitalists, who hold stock for a long period of time, be given more voting rights than shareholders who simply move in and out of shares of stock at a very rapid clip?

Then there is a separate question, which is: Within the rules, how should a corporation function? The norm had been, until relatively recent years, that if a company was highly profitable, workers could be assumed to have steady employment. Indeed, if company profits increased, workers' benefits and wages would increase along with them. When the company won, workers would win. That is no longer the case. The norm has changed. The formal rules have not changed—there was never any *law* that required that when a company did well its workers had to do well—but the norm has shifted.

It is now the case that highly profitable companies sometimes shed thousands, if not tens of thousands, of workers. In so doing, companies are in certain cases doing little more than redis-

WHY DO LAYOFFS OCCUR?



JUST A FEW YEARS AGO, most layoffs occurred in response to economic difficulties. Now layoffs are a strategic maneuver, to be used in both good times and bad.

tributing income from employees to shareholders. Should there be a law against that? I don't think so. In my experience regulations don't work very well. But perhaps, if we want companies both to maximize shareholder returns and to be sensitive to the needs of other stakeholders—by which I mean the company's employees and the communities it serves—we need to provide some economic incentives for them to do so.

GILDER: You brought up a specific example in your *New York Times* article on the AT&T layoffs. What do you think AT&T did wrong?

REICH: AT&T—a highly profitable company—announced on the first business day of 1996 that it would be laying off 40,000 people. Now, quite apart from the question of whether that was wise or good for AT&T's own business strategy, let us at least acknowledge two things. Number one, there are social costs in doing that. There are communities in New Jersey that are now different than they were before. Property values may now be lower, people are less secure. But number two, there are consequences extending beyond AT&T. Every time a large company announces a major layoff, a chill is sent through the living rooms and kitchens of millions of American homes. People feel less secure. To the extent that we're concerned about social tranquillity, that sense of insecurity is a real cost.

GILDER: So you're assuming that AT&T is an example of a very profitable company that has irrationally chosen—

REICH: No, not irrationally.

GILDER: Or offensively—

REICH: No!

GILDER: Or culpably or questionably—

REICH: George, George, listen to me. I didn't question the morality of AT&T. In fact, I am very much against villainizing any of these people. And with regard to whether they did it wisely—the share price went up. By some measures, AT&T did precisely what it ought to have done. But the fundamental question is whether society is better off.

LUTTWAK: My personal conclusion is that when a country is as rich in GNP and as poor in social tranquillity as the United States, it makes no sense to purchase more GNP, through deregulation and increased efficiency, at the expense of tranquillity. It's like a man with twenty-four ties and no shoes buying himself another tie. And efficiency is always purchased at the expense of stability.

A society that is rich in GNP and poor in tranquillity ought to be thinking of ways to impede change, to secure and stabilize, not ways to increase change for the sake of efficiency. Turbo-charged capitalism will undoubtedly increase the GNP, and it will secure higher levels of employment. But it will also destabilize society. More structural change means that anybody who has a job is penalized whereas anybody who has a highly mobile set of skills is rewarded. It rewards acrobats at the expense of working stiffs, who also happen to be fathers and stable members of the community. When you deregulate the airline industry, you cause certain airlines to close and new airlines to open. You force people to change jobs. You force families to relocate. And in the course of that, you cause a certain number of divorces and a certain percentage of juvenile delinquency for children who are moved from place to place, whose families have broken up.

And if you inflict enough change on people, they bite back. In Poland, the economists all

EMPLOYEE RELATIONS, 1958

A MORAL OBLIGATION

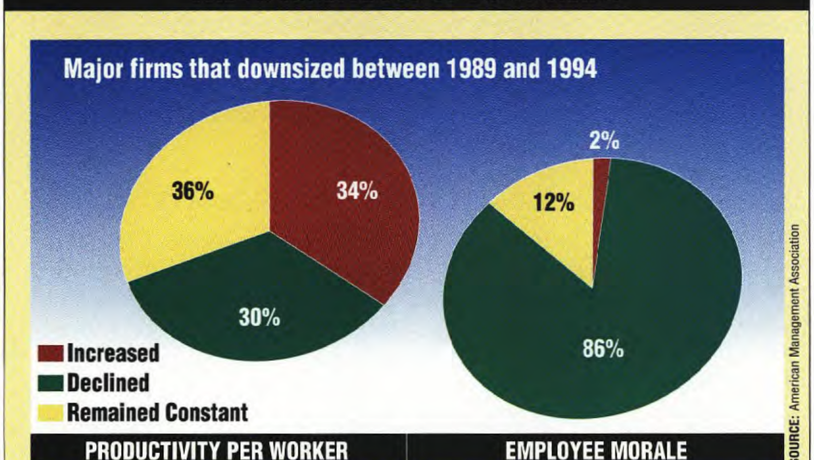
From the 1958 personnel manual for Chance Vought Aircraft, a Dallas manufacturing firm.

1. THE GREATEST ASSET OF OUR BUSINESS is the potential of our employees. Recognition and enhancement of this asset are of material benefit to the company and also fulfill a moral obligation to each employee. To deal with each employee as a respected individual who is to be justly compensated and rewarded, encouraged and assisted in his progress, and judiciously informed regarding company policies, achievements, and future plans is a step along the way. Our success may well be measured by the extent that our efforts give meaning and dignity to the employee's life as reflected by his attitude at work and in his home and community relationships.

2. AS THE COMPANY HAS A RESPONSIBILITY to its employees, so the employees have a responsibility to the company. The welfare of both depends upon the sincerity and effectiveness with which each carries out his responsibility. To encourage a sense of responsibility, a spirit of confidence, and an attitude of cooperation among our employees is a primary personnel goal. The company recognizes the value of the individual employee and provides the essentials which will enable him to achieve the maximum satisfaction in his work. In turn, the individual employee is expected to recognize that his own satisfaction derives from loyal and conscientious service in the performance of his duties.

celebrated the success of the "shock treatment" reforms, and what happened? They got a Communist government. In Russia, the economy is liberalized, and they're going to get a Communist government. In this country, if you push people hard enough, you're going to get fascists in power. You're going to get people in power who will say to the voters: I will protect you against this acute personal economic insecurity that these people have been submitting you to. We had a warning with Ross Perot. Perot is a weird character, but he did talk about personal economic security. We now have Mr. Buchanan, who in my view is the only person in the political process who has a legitimate product—namely, I will stop change.

THE AFTEREFFECTS OF DOWNSIZING



ALTHOUGH DOWNSIZINGS have little immediate effect on worker productivity, they invariably lead to sharp declines in morale among the employees who remain.

DUNLAP: With all due respect, that has got to be the biggest bunch of rubbish I've ever heard in my life. It's not a question of if we're efficient we're hurting people. A corporation will keep the people necessary to do the best job and to grow. The people who are laid off are laid off because there aren't jobs for them. To keep those people on the payroll, in fact, jeopardizes the jobs of the rest of the workers. At Scott Paper, I came into a situation, one that is not uncommon in corporate America, where people before me had created something that didn't work. There were too many people without real jobs. I came into that situation and I changed it. I was forced to lay off a lot of people. We treated those people with dignity and respect. But to say that we shouldn't be efficient? That's nonsense!

LUTTWAK: What I'm saying is that a country like ours, in which many people have nice cars but have difficulty parking them safely, ought not to be engaged in the search for efficiency at the expense of stability. We used to have a regulated airline industry, a regulated oil and gas industry, agriculture, telephone—all regulated. The economy still grew, but it was full of impediments. In that kind of economy you have less efficiency and more tranquillity. This country is now much richer than it is stable. It is half West Palm Beach and half Burundi.

GILDER: Although it was tenable a decade ago to say that there was something deeply awry in the corporate order—particularly during the restructuring campaigns that occurred in the Eighties, largely fueled by junk bonds—I don't think it's tenable today. The results are in, and it's demonstrable that over the last twenty-five years or so, the companies created by junk bonds and by corporate restructuring have been the most important contributors to the steadily expanding standard of living and life expectancies and prospects of the American people.

During that time, between 1976 and 1993, U.S. corporations did 42,621 merger and acquisition deals worth about $3.1 trillion. Telecom, tires, tobacco, and technology were all heavily restructured, and the result was $899 billion in shareholder gains and the creation of whole new industries in cable television, fiber optics, communications, cellular telephony, pharmaceuticals, computers, chips, software—the huge affluence of the American economy that certain economists present seem to have completely missed in their preoccupation with wage data, which happens to be the only series of data that is going down.

During the same time that all this new wealth was created, the stock market doubled in real terms and has now more than tripled in real terms. The median wealth of American households about doubled, from $24,000 to $48,000 in real terms. Per capita personal income went up by almost a third, there were some 31 million net new jobs created, and the American economy is steadily rising in real incomes. It was a phenomenal, amazing feat of job creation that is the envy of the world. People ended up living five years longer. They had two color TVs and a VCR in their home instead of one black-and-white television set. They had longer vacations than they had before, some twenty-two days of paid vacations a year, and an immense expansion of technological benefits. And meanwhile these economists obsess over the one piece of data that misses all the major changes in the economy.

I think the assumption that the period between 1950 and 1973 was a golden age and the subsequent period was one of stagnation is preposterous. There's just no evidence for it, except in this one lonely statistic that you people lovingly cultivate, which is wages.

BLACKWELL: I spend more time standing on people's back porches and in union halls than I spend lovingly caressing the wage data. But I can tell you there's a lot of pain in America today. There's a lot of fear out there. It is palpable, and it is alive in the land.

Overall the economy is booming, I agree. We've got a $6-trillion-a-year economy, the stock market's at an all-time high, corporate profitability is at a thirty-year high. But this is the first recovery in the postwar period in which wages are still falling in the fifth year of the recovery. And that wage data is important because what's going on here is a redistribution of income from employees to employers, from people who work for a living to people who own. And that makes for social divisions that are going to breed political movements that compromise the environment within which businesses exist. That's what we're fighting now. America is coming apart at the seams, because it's getting so much more difficult to make a living in America by hard work.

REICH: George, your enthusiasm is inspiring, and, as usual, it knows no bounds. I am as enthusiastic as you are about many aspects of this economy, and I think we ought to give ourselves and all other Americans a great round of applause for what has been accomplished over the past twenty or thirty years. But I don't think that's the point.

As secretary of labor, I carry on a kind of free-floating focus group. Every week I'm out there talking to people. I visit with blue-collar and white-collar workers. I'm in plants and factories, I'm in retail establishments, I'm in restaurants, I'm in hospitals. And what I hear, over and over again, is: Yes, jobs are back. Yes, there are a lot of technological marvels out there. Yes, there's a lot that's good about the economy. But over my kitchen table we worry. It's getting harder to pay the bills. The coping mechanisms that we have been using are beginning to run out.

As the median male wage began to decline in the late Seventies, American workers developed a number of coping mechanisms. The first one was for women to go into the workforce in great numbers. Women did not go into the workforce because of the wondrous opportunities suddenly open to them but to prop up family incomes. The second coping mechanism, which emerged in the Eighties, was for people to have smaller families. Not because they loved children less but because they couldn't afford larger families. And then that coping mechanism was exhausted. In the late Eighties, the third coping mechanism was to work longer. We saw the workweek become longer, and we saw a lot of people take on second, even third jobs. I've met people who are working eighty hours a week, ninety hours a week. There are 11 million people in this country right now who are working for under $5.15 an hour, near the minimum wage. These are not kids. Forty percent are the sole breadwinners of their families, and they're making $8,600 a year. Think of that: $8,600 a year, the sole breadwinners of their families.

People tell me they're worried. They're worried about their jobs. They're worried about keeping their jobs. These are the kitchen-table conversations that Americans all across this land are having.

GILDER: The fact is that layoffs are a good thing. I remember back in the early Seventies in Seattle, Boeing laid off about half of its workforce. It was widely prophesied that this was the end of the line for Seattle, that Seattle was going to be a basket case in the future. Since then, Seattle has become the richest and most prosperous city in the country. Pittsburgh was, at the time of the collapse of Big Steel, regarded as a hopeless case. What was the result in Pittsburgh? Pittsburgh became America's most livable city. Thousands of new machine shops and small businesses emerged. In North Carolina, tobacco companies laid off scores of thousands of people. It was supposed to be a catastrophe. The people there have prospered.

The fact is, layoffs are crucial to growth. The more layoffs in a particular area, the more business starts and the more long-term economic growth. An economy with layoffs is an economy that can create jobs and opportunities. So whatever changes you may propose, Bob, the last one you should do is to make it more difficult to lay people off. Because if you can't lay people off, then you can't hire people so readily. Systems of credentialism get entrenched, and opportunities close. And I think an open economy with less credentialism and more opportunities is desirable. It takes courage, guts, to lay people off, but it unleashes new powers.

BLACKWELL: When you say that layoffs are good, George, all you're telling me is that you've never had a plant gate slammed in your face. You've never gotten a pink slip. You've never experienced anything like that or you couldn't say things like that.

The point of restructuring a company is not to put people out of work—or, at least, it shouldn't be. It's to gain some flexibility to respond to the environment in which the company exists. Al, when you take over a company, it's usually in bad shape. You've got to gain some flexibility in order to turn it around. Now, you seem to think that the only way to gain that flexibility is through layoffs. I don't think that's true. My union has direct experience with the Xerox Corporation, a company that invented xerography, lost half its market share in the late Seventies, and then regained much of that market share in the Eighties with a competitive strategy that defined what "high road" means. People's jobs weren't slashed. Management didn't think they had to start out by cleaning house in order to realize hidden shareholder value. What they came to understand was that they had an enormous untapped competitive resource in their business, and that was the knowledge workers have about what they do, which management not only does not have but cannot get except from those workers. People won't contribute to the success of your organization unless they're secure in their livelihood. They're afraid of change if it's going to threaten their livelihood. Grant them security and they're not afraid to contribute their ideas, they're not afraid to engage their energies to find solutions to the company's problems.

We found at Xerox that to make this program work, they had to grant security. That was very tough for Xerox to swallow—it's very much against the ethos of management—but the fact of the matter was: once those workers had security, they didn't care which particular job they were working on. They were completely secure in offering their ideas to the company. The interests of the workers and those of the company were much more aligned than they had been previously. The workers weren't being driven by fear but by the enjoyment of their work and the contributions they were making to the success of their company. So I would suggest that layoffs, if we are to have any tolerance for them at all, should be seen only as a means to an end. And that end can often be gained by other means.

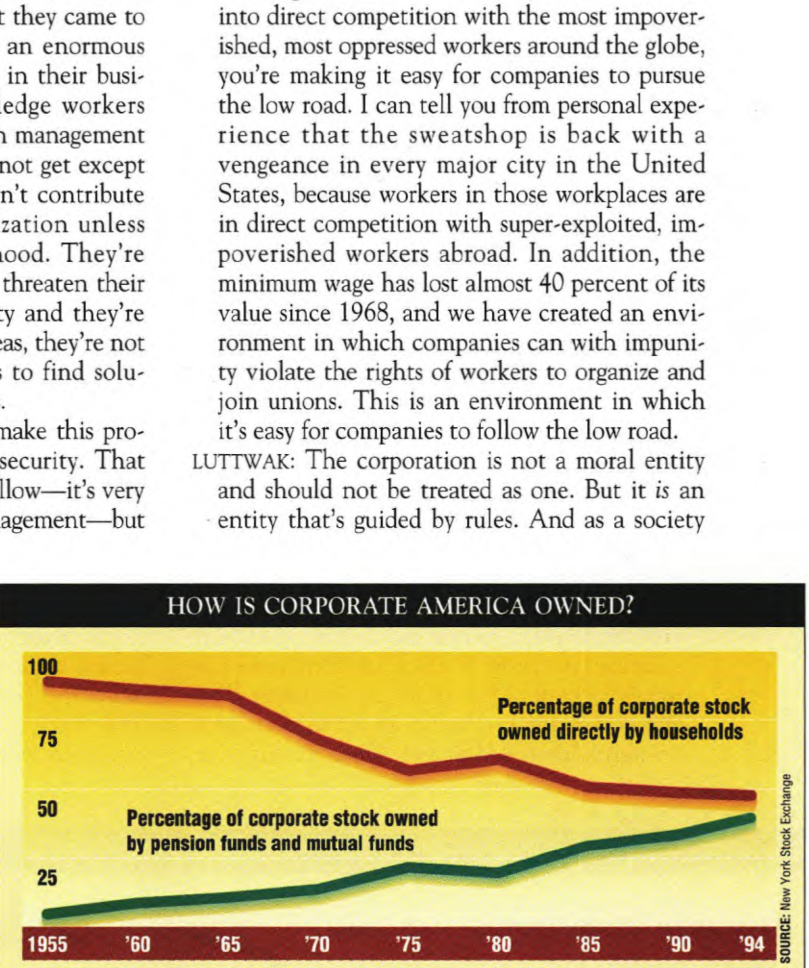
TOUGH: If there's a high road and a low road that a company can take, and the high road works, why would a company take the low road?

BLACKWELL: Well, the low road is a lot easier to follow. You don't have to change the way you do business, you don't have to do anything except find some cheap workers somewhere to do it. The only problem with the low road is that it's downhill. If not for the company, then for society.

The other reason why so many companies are following the low road is that the current public policy environment is making it easier to do so. In some ways it's forcing them to do so. When you slow down economic growth by half, as the Fed has done, you're creating an environment in which it's much more difficult to compete with a high-road strategy. When you sign trade agreements that force American workers into direct competition with the most impoverished, most oppressed workers around the globe, you're making it easy for companies to pursue the low road. I can tell you from personal experience that the sweatshop is back with a vengeance in every major city in the United States, because workers in those workplaces are in direct competition with super-exploited, impoverished workers abroad. In addition, the minimum wage has lost almost 40 percent of its value since 1968, and we have created an environment in which companies can with impunity violate the rights of workers to organize and join unions. This is an environment in which it's easy for companies to follow the low road.

LUTTWAK: The corporation is not a moral entity and should not be treated as one. But it *is* an entity that's guided by rules. And as a society we ought to fix those rules so that corporations only interested in making money nevertheless do the right thing. At the beginning of the recent recession, the chairman of Toyota wrote a letter to all of his employees saying, Under no circumstances will we fire anybody. Now, why did he act like that? Because he's operating within a framework. The considerable support

HOW IS CORPORATE AMERICA OWNED?



THE MOST SIGNIFICANT CHANGE in stock ownership in the last four decades has been the shift from individual to institutional ownership. The result has been increased pressure from newly powerful pension-fund and mutual-fund managers for high and quick returns—often at the cost of jobs.

he gets from the Japanese government, from the financial community, from Japanese society, from his workers, from his social circle, depends on him doing that. In an American company, the only rational thing for a CEO to do is to grab as much as possible. He's operating under different rules. But there's no reason we can't change the rules. There's no reason, for instance, why executive stock options can't be taxed differently than they are now. If it's an eight-year stock option, you pay no tax. If it's a one-year stock option, you pay 105 percent tax. That will take care of short-term behavior.

BLACKWELL: Let's accept, for a moment, Al's idea that laying off workers has some value to the shareholders, or even George's idea—that it benefits society as a whole, that layoffs help us progress economically as a country. The question remains: Why is this advantage, this progress, paid for privately, by the most vulnerable individuals, the individuals least able to bear the cost? If there is this enormous gain to the company, this enormous gain to society, why doesn't society compensate these individuals? Why, for example, would a company not say: Okay, I'm benefiting from this flexibility, so I'm going to continue your health insurance for six months, or a year, beyond the time that you work here. I'm going to give you some allowance to sustain yourself, some training money to get a new kind of job. Why not force corporations to share the pain, as well as the gain, of this kind of change?

GILDER: All those mechanisms exist in Europe, and the result is Eurosclerosis. Every political campaign in Europe for the last thirty years has revolved around the issue of preserving jobs, and as a result the European economies have created almost no net new employment over this period, outside of government consumption. And they've endured much higher rates of unemployment.

LUTTWAK: But that unemployment rate has to be seen within a social framework. Let's assume that I'm a European employer. Okay, I hire only ninety people and leave ten workers completely unemployed. The American employer comes along and employs ninety-six of them. But instead of paying them $25 an hour, he pays them $10 or $15 or $7 an hour. That's a very good bargain, and that's why I invest in U.S. companies and don't invest in European companies. I'll give you 101 percent employment if you let me pay people nothing. I don't believe that American-style, turbo-charged capitalism is bad or inefficient. It's very good and very efficient. But it happens to wreck society. It's a trade-off.

TOUGH: Let me ask you a fairly fundamental question. To whom do corporations have responsibilities? Are they responsible to anyone but their shareholders?

DUNLAP: The shareholders own the company. They are my number-one constituency, because they take all the risk. If the company goes bust, they lose their life's savings. I can't give them their money back. It's an awesome responsibility.

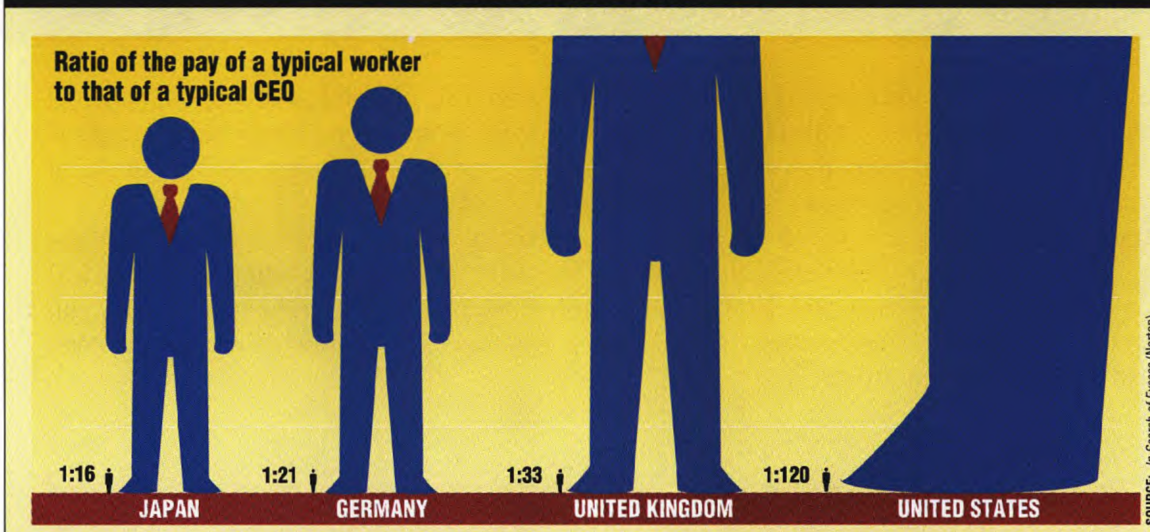
BLACKWELL: But it's not true, Al, that all of the risk is borne by the owners of the company. The owners of the company, typically, have a diversified portfolio. For the workers in that company, it's their livelihood. It's a risk, and, boy, it feels more like a risk today than it ever has before.

It wasn't the shareholder that created the corporation. Society created the corporation. It was created by the government and given some special immunities, like limited liability. If society is going to allow the owners of a company to pursue shareholder value however

WHO OWNS CORPORATE AMERICA?

ALTHOUGH THE PERCENTAGE of the American population that owns stock (directly or through pensions or mutual funds) has almost quintupled since 1952, the vast majority of total stock assets are still owned by the country's richest citizens.

CEO COMPENSATION



THERE IS AT LEAST ONE SECTOR of the American workforce that has managed to avoid the wage stagnation affecting most families: corporate CEOs. According to Graef S. Crystal's book *In Search of Excess*, the average CEO's after-tax compensation rose by more than 300 percent, adjusted for inflation, since 1974, while the average worker's pay fell 13 percent. The result is an unprecedented disparity in salaries within corporate America—one that is especially striking when compared with other industrialized countries.

they want, then the society has a right to expect that other social actors will somehow be provided for. That could be enforced by the government, but if you prefer for it not to be done by the government, then the company itself has to find a way to respond to some of those needs. And if it doesn't, then we have the problem that Ed raised, which is that society *will* intervene. Those people you lay off don't just fall off the edge of the earth. They organize themselves into movements that ultimately change those rules, including the rules of the corporation, perhaps in ways that neither of us would want.

DUNLAP: Management gets paid every day, the workers get paid every day. The community is gaining. All these so-called stakeholders receive these advantages every day. The shareholder does not. The shareholder only gets his money to the extent that management and workers are able to increase the value of the company. The shareholder takes the major risk.

LUTTWAK: I own shares in highly profitable non-U.S. companies that pay their workers much more than U.S. companies but pay their management much less. As a shareholder, I'm paying more to my Japanese workers than to my American workers. But a Japanese CEO is content with $500,000 a year. The American CEO is unhappy if he makes only a few million. My Japanese managers and my European managers do not demand millions. Indeed, they would be facing social disgrace were it to be known that they take home a hundred times more than their assembly-line workers. If the Toyota board offered the chairman $10 million, he would refuse, because he wishes to maintain his social position.

TOUGH: As a stockholder, if you had stock two years ago in Scott Paper—

LUTTWAK: I did.

TOUGH: All right, well then—

LUTTWAK: People started telling me the Al Dunlap story from the beginning. Of course I bought shares. Naturally I bought shares. Do you think I'm an idiot?

TOUGH: Well, as a shareholder and a citizen, how do you feel about Al Dunlap having made a hundred million dollars from Scott Paper over the last two years?

LUTTWAK: Well, as a shareholder I feel that he has taken my money. He has taken my money with the approval of this society and with the admiration of this society. He stole my money.

TOUGH: But he doubled your money.

LUTTWAK: *He* didn't double my money. Do you think Scott Paper is the only company that has done well in the stock market recently? Over the past few years, if you had simply avoided investing in companies with no net worth you would have doubled your money.

TOUGH: Okay, so as a shareholder, that's how you feel. How about as a citizen?

LUTTWAK: As a citizen I would rather earn less, a little less, and be able to park my car without having to fear that I will be murdered.

DUNLAP: I need to respond to that. That is an absolutely absurd premise. Let me tell you about the money I've made. I invested my own money in Scott stock. Very few CEOs in America ever do that. I took an enormous risk with my own personal money. Yes, I made a lot of money. But I created six and a half billion dollars. I got less than 2 percent of the wealth I created.

LUTTWAK: I would never wish someone running a corporation to be doing anything other than maximizing profit, according to the rules. You were playing according to the existing rules. But it's up to us, as a society wishing to minimize savagery, to set the rules appropriately. And I believe that the rules are set wrong.

GILDER: Somehow you associate savagery with—

LUTTWAK: With accelerated structural change and a lack of stability.

GILDER: Yeah, and with technological advance. But we have tested this. Europe really does preserve jobs, but the result is a level of job creation far below ours.

LUTTWAK: You take it for granted that the purpose of the rules should be to maximize efficiency in order to maximize GNP, whereas I say that when you have a very high GNP, as we do, it is sensible to moderate the drive for efficiency and for high GNP. If we were in Indonesia, where GNP is low, where there is basic fundamental poverty, what you say would be totally correct. I would accept it completely. But once you have wealth in the society, it makes sense to moderate the pursuit of wealth to achieve some other goals.

I give you a case in point: NAFTA. NAFTA was defended by Mr. Reich, among others, who said that we would lose low-paying, routine jobs and gain high-skill, high-paying jobs. And that was certainly true. When you look at the actual, concrete case of American society, however, there isn't a shortage of high-paying jobs. There's a shortage of low-paying, routine jobs for people who cannot aspire to high-paying jobs.

When I go to my gas station in Japan, five young men wearing uniforms jump on my car. They not only check the oil but also wash the tires and wash the lights. Why is that? Because government doesn't allow oil companies to compete by price, and therefore they have to compete by service. They're still trying to maximize shareholder value, but they hire the young men. I pay a lot of money for the gas.

Then I come to Washington, and in Washington gas is much cheaper. Nobody washes the tires, nobody does anything for me, but here, too, there are five young men. The five young men who in Japan are employed to wash my car are, here, standing around, unemployed, waiting to rob my car. I still have to pay for them, through my taxes, through imprisonment, through a failed welfare system. I still have to pay for them. But in Japan at least they clean my car.

Both societies have young men who won't make the grade as computer programmers, who cannot enter into the brave new world of Bill Gates and George Gilder. In Japan they arrange matters so that these people are employed. Are they efficiently employed? Goodness, no. Of course they're inefficiently employed. But they're no longer a threat to the society.

So I'm concerned about the underclass. Not out of compassion but because they are a potential threat to me. For the same reason, I'm also concerned about the lower middle class, which is now economically insecure. I've watched them, in Poland and in Russia and in France, saying: That's it, fellows. You guys come and preach to me and tell me that the market rules. Well, I'll show you. I'll put people into office who will screw you.

DUNLAP: I think it's totally outrageous that politicians are pandering to this issue, saying that somehow, because people are out of work, business is evil. That's outrageous. It's a political year, and the flavor of the month is: corporations are bad, they're putting all these people out of work. These politicians are missing the point that every time corporations downsize, the security of the jobs that remain goes up, not down.

BLACKWELL: It's true that this problem is being exploited by false populists. But it won't simply go away, Al, when the politicians have left. There's a real social basis for this. There's real pain out there, and we've got to deal with it.

LUTTWAK: In this election there's all this background noise about abortion, about homosexuals, about this and that, but I think that in reality it is about one thing: personal economic insecurity. Even in a globally successful economy with high growth, a lot of wealth creation, and a lot of shareholders—people like myself—who have made a lot of money, personal economic insecurity is still the dominant phenomenon. And the politicians who are responding to it are being rewarded. It ill befits the Clinton Administration to speak in glowing terms about technological change, deregulation, and globalization when addressing people to whom these are not positive words but negative words. And rationally so, because even though the economy will benefit and, eventually, their grandchildren will benefit, in the meantime it increases this awful instability.

Remember, Americans do not have cousins, as Europeans and Japanese do. Here, people don't even know their cousin's phone number. There's nobody to support them. Americans have already traded in their families for personal, individual advancement. So now, to come along and willfully subject them to added insecurity? They will come back at you. These people, who are the non-supertalented, the non-superacrobatic, the non-supersmart—what they're looking for is somebody who can answer their problems. And they will find him. ■