

State of Corporate Reform Globally, History, Future

1. You have the right to be angry at Wall Street and you have the right to be angry with the professionals you thought you could trust. If we have learned one thing from this year it is that we can't rely on post-Enron reforms like S-Ox; eternal vigilance is not just the price of liberty, it is the price of a sustainable economy. We believed that Wall Street would act rationally in their own interests and ours. They did not. We believed that money managers we hire would keep our interests paramount. They didn't.

We are passionate believers in the market and in capitalism. And we are passionate advocates for the working families who entrust us with their money so that they will be able to live independently in a stable, job-producing economy when they have completed decades of service. And it is up to us, each of us, all of us, to make sure that as an essential part of the free market we clearly and powerfully send back the signal that we are going to insist on better.

2. Where are we coming from? In 1992, The End of History was published – participatory democracy and free market capitalism had finally triumphed across the world and the half millennium ideological struggles were over. No longer would there be needless restraints on the expression of human genius
 - a. We could contemplate the promise of an “equity culture” – consistent returns adequate to fund societal promises = a higher level of society. This

requires a legal and governance system by which all shareowners are assured participation in the growth in value of enterprise. The question is not whether a few individuals get rich; the question is whether the society as a whole generates wealth which is available to meet the citizens' needs. Whether we pay pensions depends on the continuing integrity of equity markets – and the historical 6% in excess of inflation returns.

b. There are limits to the amount that government can borrow to finance public services – achievement of a decent living standard for all requires a healthy equity culture.

3. Western Capitalists launched a fifteen year experiment in free market economics

a. Regulation of financial practices was largely eliminated – \$600 million was spent over ten years in lobbying efforts culminating in the repeal of Glass-Steagall. Enforcement of the remaining laws was conspicuously absent

i. Not only Executive Agencies, like the SEC, failed to act, but shareholder rights to protect themselves in court were – and continue to be – severely diluted. Knowing participants in corporate fraud damaging millions were protected from accountability.

ii. We should note the honorable exception of President William J. Clinton's 1998 veto of the Congressional gutting of shareholder self help through litigation

- b. The finest CEO of the company with the best reputation for employee relations cancelled defined benefit plans, thus ending real pensions for other than principal executives. I mention this not to pick on anyone (Lou Gerstner and IBM), but to explain that even the “best” people participated in what I call the “failed experiment”.
 - i. These people are not the “enemy”- our job is successfully to persuade them to begin again, so that “equity culture” can be holistic and legitimate, again.
- 4. The experiment in corporate self regulation has proven to be unsustainable.
 - a. CEO pay and power have risen to previously unimaginable levels. At an Exxon Annual Meeting, I asked Lee Raymond whether he was 16 times more productive than his predecessor Lawrence Rawl, because he was compensated at a level sixteen times larger. The problem is not in the amount of pay – although that is a problem – it is that pay is not correlated in any way to value added. Pay is an expression of concentrated power – enterprise power concentrated in the CEO, and national power concentrated in corporations .
 - b. Even as the benchmarks for corporate success, particularly in the financial sector, give far more weight to the sheer number of transactions than to the quality of their economic impact.
 - c. I have elsewhere – CORPOCRACY – written about some of the ways in which CEO power and corporate power have changed the nature of American democracy and society.

5. Where are we today – The End of the End of History – On April Fool’s Day, the CEO of General Motors was fired by an undisclosed official of the federal Treasury Department. Can anyone tell me the last time that the head of a corporation was fired by government in America? Indeed, we are in a new time. We are a financialized society. We do not make products, we make deals – some are in aid of making financing more competitive, but many serve only to generate fees, create casino profits and expose the public to loss. The revenue from the finance sector is not only larger than any other, it is now 40% of the total
- a. The political power of the finance sector is so great that Travelers’ Insurance and Citigroup merged in confidence they would be able retroactively to legalize the act through the repeal of Glass Steagall.
 - b. The finance sector has been able to lay claim to the general credit of this country – to expand our debt beyond limits previously thought to be fatal - and all its citizens with the argument that it is the life blood of our polity and economy
 - i. Certain banking functions – dull, not hugely paid, reliable – savings deposit, check cashing, loans for local businesses and houses, these are essential. Clearly securing their integrity is a vital national concern.
 - ii. What is the public interest in Credit Default Swaps? What public good comes from this manipulation? If I understood it, I would ask

country recited as emanating from the Almighty. How about fire hydrant speech. Computer speech. Ralph Nader has a new novel with corporations running for public office. Corporations have no body to incarcerate, no soul to save. They are plainly not included in “of the people, by the people and for the people”.

- d. Can it be imagined that tomorrow is the day when the slender limits on corporate dominion over the political process will be abolished. The age of information has been subverted into the age of finance (or, more bluntly, the age of money)
 - e. How much of the current barely restrained violence of opinion regarding health care reform is the result of personal beliefs and opinions – and how much is being spent by corporate interests to preserve the profitable status quo.
 - f. Capitalism and democracy survive and triumph because of the capacity peacefully to adapt to change. This is their unique genius. Do we really want to legitimate corporations – their money, their values – as co citizens with flesh and blood human beings? They do not aspire, they do not feel pain.
7. We do not have forever – the public pension plans have to become effectively active – before Wall Street consolidates its dominion
- a. Plans cannot be supine with their voting and engagement (cf Lehman, Bear Sterns). We have witnessed a decade of declining values for plan participants because of governance failures. A life time of neglect of

environmental and social considerations will further reduce the quality of retirees' lives.

- b. Plans cannot ignore their unique capacity as plaintiff to protect and enhance their beneficiaries. Again and again, we have experienced that the only progress we make in trying to make corporations' accountability to anybody is in settlement of litigation. We must use this tool intelligently.
8. We must leave this place with the informed commitment to take whatever steps are necessary to restore a healthy Equity Culture – otherwise our descendents will live in a state impoverished because of our neglect.