

Profit, responsibility intertwined

By COLIN READ

In My Opinion

September 27, 2008 05:28 am

— It seems that we are constantly waiting for another shoe to drop.

First, we had the credit crunch in the summer of 2007, then the global financial meltdown in January and February. Bear Stearns failed next, followed by Fannie Mae, Freddie Mac, AIG, Lehman Brothers, and Merrill Lynch. We have a stalled energy bill in Congress, and the taxpayers are being asked to pony up about \$10,000 per household to bail out the banking industry. What could be the next shoe to drop?

Fear has gripped the financial markets to a far greater extent than the crash of 1987. This past year, and what might happen next, will hopefully be as defining as the Great Depression. I say hopefully because the U.S. economy and Wall Street needed a day of reckoning just as it did after the Roaring 20s. And Wall Street needs to develop a social conscience.

I heard a presidential candidate talking the other day about how these shenanigans don't really affect the average person. I am wondering if that is true.

Certainly the 50-percent increase in the unemployed is painful to many. And their reduced purchasing power is painful to many more. The U.S. has lost some of its global financial leadership, meaning we will have to begin to cooperate more in global finances, something we have done in the past, but not lately. Those that may lose their homes, ironically enough perhaps to a bank or fund partially owned by taxpayers, certainly feel these Wall Street shenanigans are real.

Even those who have a steady job and a home will be affected. They will find they cannot easily sell their homes even at the price they paid a few years ago. And they will likely have a harder time refinancing, to put their kids through college or to make home improvements.

Those who may suffer the most though are those at the end of their careers, without the time to recover. With the stock market now at the same level as it was in 1999, there is great hardship for those who relied on investment appreciation over the past decade to prepare themselves for retirement or to fund their continued retirement. These individuals are facing the necessity of working another five or 10 years, or of coming out of retirement to make ends meet. Of course, this is the worst time in a decade or two to contemplate returning to the workforce. And the pain of shattered dreams for someone devoting a lifetime to employment in hopes of retiring, only to have those dreams dashed because we failed in our stewardship of the economy, seems to be too high a price to pay.

Adam Smith, in his 1776 book, "The Wealth of Nations," extolled the beauty of capitalism. He did not do so with blind zeal, however. He was defining a new social contract in which a perfect society creates the rights to property and the virtues of profits. In turn, though, those who benefit from the profits of capitalism are expected to pursue activities in society's best interest for their personal gain.

We have seen a lot of personal gain in the last decade. We have forgotten the social responsibility that comes with it. And we have ensured some can profit with impunity as we have neglected to enforce laws currently on the books, or promulgate laws that reflect changing business practices.

If taxpayers must bail out these executives, we should require the banking beneficiaries to issue taxpayers options to buy their stocks at a low set price once the stocks recover. Such options are given to executives all the time. Perhaps these same options should also be given to the taxpayers who bail out the executives. I have more faith in this approach than in one that would have government bureaucrats act as trustees or directors of

private companies. Their incentives to make a good return for the taxpayer would be too small, and the risk of political tampering too great to suffer such a solution.

Ultimately, though, we must recognize the interdependence of economic profit and social responsibility. Until we do, shoes will continue to drop. This may be a most painful lesson. However, if we get it right, it may return this country to the path of economic innovation that has so well served us in the past and move us away from the path of financial "innovations" that has so crippled our economic destiny.

Copyright © 1999-2008 cnhi, inc.