

An Economic System Problem

by Ralph Gomory

The goals of our great American corporations have changed profoundly over time. To see this, one has only to compare two statements from the Business Roundtable, an enormously influential group of major corporate CEOs.

In 1981, The Business Roundtable wrote in its [Statement on Corporate Responsibility](#) that companies should always consider the effects their actions have on a number of groups including their shareholders, their communities, their employees, their suppliers and the general welfare of the country. But by 1997, their [Statement on Corporate Governance](#) discussed only how they could best serve their shareholders.

This shift in purpose has had major negative effects on our country.

The causes for this profound change in corporate goals are given different weights by different observers, but that the change occurred is not in dispute. Nor is the fact that the orientation of today's American corporations is to maximize the return to the shareholder.

What are not as well-known as they should be, are the consequences of that goal.

It is a fact, although one that is often obscured, that most corporate stock belongs to those who are already wealthy as I describe in [Corporate Goals](#).

So, intended or not, our corporations have as their goal today, making the wealthy wealthier, and that is what is happening.

Many other negative consequences of this goal are well spelled out by two distinguished academic observers: Lynn Stout in [The Shareholder Value Myth](#) and Marina Von Neumann Whitman in [New World, New Rules: The Changing Role of the American Corporation](#).

But our corporations do not have to act this way.

I am circulating those Business Roundtable statements to remind people that there was a time when corporations behaved differently. What we are doing now is the exception, not the rule.

I have written a summary of [key statements of the two Business Roundtable papers](#). I strongly recommend, however, that you read substantial portions of the original Roundtable statements as they show how the whole outlook and thinking of our corporations have changed away from a concern for the general welfare.

Is there anything we can do to cause our corporations to better serve our country?

The answer to that question is, surprisingly enough, a resounding yes. Once you start thinking about it you find that there are many things that can be done.

Some of these many possibilities are discussed in an article I wrote with economic historian Richard Sylla, [The American Corporation](#). Many more are discussed in Christopher Mackin's [Wealth at Work: Employee Ownership and Responsible Accumulation](#). Some, such as Employee Stock Option Plans (ESOPs) and cooperatives, are already widely used either here or abroad. In the insurance industry, familiar names such as State Farm and Mutual of Omaha are mutual insurance companies. In these companies it is the insured rather than outside shareholders who benefit from the profits from company operations.

There are many more possibilities we can find or invent that are well-suited to today's world and to our rapidly changing technologies.

It is important to realize that the problem we have today with our corporations is not a problem of evil men. Rather, it is the natural result of a flawed system. Our various references differ to some extent on what is driving the system in its present direction, but all agree that it is a system problem and the system can be changed.

In our country, unlike many autocratic countries, we still have the freedom to explore and make changes on our own, with or without the participation of government, and with or without the cooperation of those who currently benefit most from the status quo.

We should make use of that freedom. We should use it to explore, to develop, and to adopt a variety of corporate goals that serve our country better. We should restore our corporations to their proper role: building a stronger and more widely prosperous America.

In this article I have tried to document both the need for change in our economic system and the fact that change is possible. I hope you will send some of these documents, or forward this email, to others.