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Is the American Business Community Working Against Its Own Best Interests?

In a January 1990 *Business Economics* article, Milton Friedman wrote that the American business community is on a path to suicide. Referring to Paul Weaver's book, *The Suicidal Corporation,* Friedman outlined several ways American business is working against its own best interest. Naomi Klein, in *The Shock Doctrine,* and John Bogle, in *The Battle for the Soul of Capitalism,* couldn't agree more.

Short-term Focus

Corporate officials who consider expanding their own enterprises — putting up a new factory, making new investments in developing trade — tend to look at a long-term time horizon. They plan ahead 5, 10, even 20 years and take into account the long-term consequences of their decisions. However, when it comes to policy decisions in the political arena, the business community's behavior with respect to time is extremely shortsighted. The only two groups that are more shortsighted than the business community are Wall Street and some politicians. On Wall Street it's a matter of two hours. In politics, it's a matter of two years or the next election. The business community *must* look beyond the short-term impact of what they promote.

Taxes and the Economy

The business community and its representatives are obsessed with tax cuts and subsidies as a means toward economic development, especially at state and local levels. What they do not realize is that our economy has transformed. We live now, as Lester Thurow calls it in *Head to Head* and *Fortune Favors the Bold*, in a "knowledge-based global economy." In this new economy, human capital is more valuable than traditional sources of economic growth. The point is further elaborated by David Warsh in *Knowledge and the Wealth of Nations,* which references Paul Romer.

To compete and succeed in the new economy, American businesses need an innovative and skilled workforce. Such an innovative and skilled workforce cannot be created by tax cuts and subsidies. Tax cuts and subsidies do not create knowledge and innovation; *investment in education does*. In fact, tax cuts and subsidies undermine states' ability to provide the funding necessary to build schools' capacity to provide quality education for all students regardless of their life circumstances.

Furthermore, there is no connection between low taxes and economic growth. Peter Lindert, in *Growing Public,* examined numerous developed countries over a century with respect to the relationship between levels of taxation and economic growth. Lindert found that high-tax countries grew faster than low-tax countries. Our own analysis of data from 50 states over the last 30 years reveals that states with a relatively high, progressive system of taxation grew faster than states with low, regressive systems of taxation.

Another way to look at the relationship between taxes and the economy is to ask what does "good economy" mean? We believe good economy means three things: job growth, income growth, and equitable distribution of income. Our analysis of data from 50 states shows that, in the new economy investment in public education wins on all three counts — both in the short run *and* in the long run.

Unfortunately, in making their case for tax cuts and subsidies the business community looks at only one side of the ledger. For example, raising taxes would have a negative impact on jobs. But investing tax dollars in public education would have a positive impact on jobs. The net effect is positive. In a typical state, raising $100 million in taxes means a loss of 2,200 jobs. Investing the same $100 million in public education creates 4,400 new jobs. Net effect: 2,200 new jobs.

We believe that the business community's obsession with tax cuts and subsidies — looking at only one side of the ledger (single-entry bookkeeping, like Enron) — will come back to haunt them as our tax base and our capacity to invest in human capital diminishes.

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Is the American Business Community Working Against Its Own Best Interests? *(cont.)*

Silence on Corporate Responsibility

The business community and its representatives are often silent on corporate scandals and unethical behavior among corporate leaders like Enron, WorldCom, and Tyco, to name only a few. Rosabeth Moss Kanter, in *America the Principled,* indicates that more than 200 companies are currently under investigation. She argues that we can and must do better. For example, she refers to South Africa's focus on a "triple bottom line" — financial, social, and environmental. Kanter found that companies that pursue this kind of philosophy do better than those focused on only short-term financial gains.

Similarly, John Bogle points out, in *The Battle for the Soul of Capitalism,* that American business is now being run for the benefit of its CEOs rather than for owners and entrepreneurs. For example, in 1980 the ratio between salaries of CEOs and workers was about 40:1. Now that ratio is about 300:1. Among most of our competitor nations the ratio is still about 40:1. Unfortunately, as Ravi Batra, in *The New Golden Age,* points out, no one is minding the store in the name of deregulation.

Silence in the business community on matters related to ethics, compensation, and the environment is not only hurting the public's attitude toward business but is also hurting its competitive edge in the new global economy. More than three out of four Americans have a negative view of today's business community.

A New Vision

Since Walter Wriston of Citicorp met with Milton Friedman in the early 1970s, the business community has predominantly pursued Friedman's agenda, which revolved around privatization, deregulation, and tax cuts at the top. After more than 30 years of experimentation with this agenda in different countries, including Chile, Argentina, and the United States, the results are very consistent: economic apartheid, higher poverty, shifting of the burden to future generations, ineffective government, and diminished human and civil rights. We can do better. We believe we can create an economy that is second to none by collectively pursuing a new vision, one that revolves around tax structures (T), economic development (E), and funding for public education (F). The basic premise of our "TEF" vision is that a combination of a fair, stable, and equitable system of taxation; a level playing field for economic development for all businesses — large and small; and adequate and equitable funding for public education is the best way to grow our economy in the 21st Century. Our TEF agenda offers us the greatest potential to create economic prosperity, fiscal responsibility, effective government, and preservation of human and civil rights.

The American business community and the National Education Association have a lot at stake in the current debate over taxes, economy, and education funding. Together we need to turn the page and write the next chapter to create a new economic future for our country. Can we?

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