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REIMAGINING A CORPORATION'S PURPOSE IN THE GREAT RECESSION ERA AND MEETING THREATS TO FREE ENTERPRISE

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P R O C E E D I N G S

MR. WEST: Good afternoon. I'm Darrell West, Vice President of Governance Studies, and Director of the Center for Technology Innovation at Brookings. And I'd like to welcome you to this forum on reimagining the corporation's purpose. And we are webcasting this event live, so we'd like to welcome our viewers from around the country and around the world.

We're going to be archiving the video from today's event, so anyone who wishes to view this after today will have an opportunity to do so through the Brookings website. That's www.brookings.edu.

We've also set up a Twitter hashtag, at #CorpPurpose -- that's #CorpPurpose -- if you wish to post comments or pose questions during the course of the forum. And during our Q&A with the audience we can take questions either from the live audience here in the auditorium, or those who are following the webcast and making questions over Twitter.

So, to put today's event in a broader context, this event is part of a longer-term corporate purpose project that we have been developing. For the last year, we've been putting out papers and holding forums on various ways to change the ways that companies think and operate. In our view, far too many business leaders are focused on maximizing shareholder value, to the virtual exclusion of any other objective. This creates perverse incentives and makes it difficult for companies to engage in the long-term planning that builds strong companies and promotes longer-term economic prosperity.

Our audience for this project is a variety of different types of individuals. We're certainly interested in changing behavior among corporations and their CEOs and managers. We're also interested in shareholders and investors, and how they see the issue of the corporation. We're interested in the role of the government in this, as well. So we're trying to do some things that will change behavior and change incentives in ways that will make a difference.

We're looking for good ideas. So, you know, if, based either on this event, or if you read some of our papers, or watch some of our past event videos, and if that stimulates some thoughts, please e-mail me with ideas that you have on how we can address this topic, ideas you have that would make a difference, or other ways that we can try and achieve impact.

Certainly, our current economic climate is a very difficult one. There are various threats to the free enterprise system, in terms of maximizing shareholder value and executive compensation packages that harm long-term business development.

So, to help us think through these issues, we have a number of outstanding panelists who will explore various aspects of this question: how to better encourage a longer-term time horizon among shareholders and executives alike, and what companies can do to better serve the interests of the various stakeholders in the process.

So, I'd like to welcome Anita McGahan, who is the Rotman Chair in Management and an associate dean of research. She's a professor of strategic management, and director of the Ph.D. program at the University of Toronto's Rotman School of Management.

Anita, that's a lot of titles. It sounds like three or four full-time jobs.

But she is the author of two books, and over a hundred articles on financial performance and entrepreneurship, among other aspects of management. Prior to joining the Rotman School, she was a visiting professor at the Harvard Medical School, the London Business School, and the Australian Graduate School. She's been an associate professor at the Harvard Graduate School of Business Administration, and an assistant professor at Harvard, as well.

Ralph Gomory is a research professor at the Leonard Stern School of Business at New York University. It's a position he has held since April of 2008. Prior to joining NYU, he was president of the Alfred Sloan Foundation, where he oversaw the initiation of a major program advancing a more flexible workplace, among other initiatives that he led. He also has served as the head of the IBM's research division, and was Senior Vice President for Science and Technology at IBM.

He's a member of the National Academy of Science, and the National Academy of Engineering. And he's the recipient of numerous honorary degrees and awards, including the National Medal of Honor.

Adam Zurofsky is a partner at Cahill Gordon & Reindel. His practice covers a broad range of topics, including securities litigation, First Amendment issues, corporate governance, and regulatory work, among other topics.

He's been recognized by Law 360 as one of the 10 rising legal stars under the age of 40 nationwide, in the area of securities law. He also serves on the board of a non-profit organization called The Constitution Works, which is dedicated to increasing civics education in our schools.

So, I want to start with Anita. So, you have argued that the public interest would best be served if there were long-term goals for creating value, and we need governance mechanisms designed to achieve those goals.

So, how would that operate? And how can companies better serve the public interest, in your view?

MS. McGAHAN: Well, thank you. It's wonderful to be here today, and to have this conversation together.

So, I'd begin with the idea that the purpose of the corporation doesn't necessarily need to be reinvented but, rather, restored. In other words, I would argue that the sort of engagement of business leaders with this obsession on maximizing shareholder value really is not sort of written into the purpose of the corporation as it was originally conceived in the late 19th century, and as the corporation became enlivened by the juristic person rule, and so on.

So, I would say that corporation really are one mechanism for creating and allocating resources, and that a kind of fundamental challenge that we face in the economy today is to actually come up with alternative mechanisms that constantly challenge corporations to be productive and efficient in the creation and allocation of resources -- and that we think about corporations as only one mechanism among many for actually achieving long-term goals.

MR. WEST: Okay.

Ralph, you wrote a paper recently with Richard Sylla for *Daedalus*, in which you argue that corporations should move in the direction of what you called "shared productivity."

MR. GOMORY: Yes.

MR. WEST: So, what do you mean by that? And how can we move companies in that direction?

MR. GOMORY: Well, first, let me say a few words about why we need to do something. We live in a time of rapid technical progress -- computers, communications, the whole thing. This should result in improved productivity, which bears on the point that -- and we've been getting it. All right? Productivity has gone up very steadily.

The odd thing is that, in spite of that, the great balance of American people over the last 30 years, their lot has not improved. And the reason is basically because the gain in GDP, or however you want to look at it, has gone to a very thin upper crust.

Now, the reason for that allocation is basically the doctrine of shareholder maximization, which you just alluded to, and which has been adopted. And, again, I echo the thought; this is a fairly recent event, starting around 1980. Before that, the corporations thought some about the workers, about the community, about the country, about paying a regular dividend, and about a whole bunch of things -- okay? And I lived through that, and I remember it.

But because of the incentives that have now been given to top management, which are mostly in the form of gigantic stock options, they have lined themselves up behind profit maximization, which comes to be about the same thing as high share price. High share price makes them richer than they ever imagined they would be -- okay?

And so our great corporations today are being run to maximize share price.

Now, this may have some problems about long-range goals, but, quite aside from that -- and I agree there are such problems -- the fact is, maximizing the value of the stock helps the stockholder. But who is the stockholder?

Now, that is a tremendously skewed situation. The top 1 percent of earners own one-third of the stock. I'm giving you approximations. The top 5 percent own two-thirds of all the stock. That leaves 5 percent for 95 percent of Americans, okay?

And so this is a very skewed distribution. And basically, you can say if we're aiming at stock price, we have adopted, for our corporations, the goal of making the wealthy wealthier. And I'm trying to put that in very simple terms, okay?

MR. WEST: I can understand that part.

MR. GOMORY: But -- and unfortunately, by adopting that, we have, you know, without conscious thought, really, we've engaged the corporations in a form of class warfare.

So I think we ought to try and do something different from that, and I have two suggestions.

One is that we should encourage productivity, because without productivity, there is nothing. Okay? Productivity creates the pie. And then there's a second question, which is who gets the pie?

And so I would say that sharing is the other thing that we have to focus on, because we are producing. We are improving. Our GDP per capita, or anything you want. But most people are not getting the gain of it. And, that, we have to change.

So I think there are many things we can do to improve productivity and also sharing. And I can either go into them now, or in response to questions.

MR. WEST: Sure. Why don't you give --

MR. GOMORY: One example would be to use the corporate income tax as an incentive for productivity. Corporations that are contributing to the country by being very productive per person, for example, they should pay a low tax rate, because they are contributing already in a very big way. So that would -- and I'm not just thinking about, boy, they just have big research labs, but anybody in any business who can do it better, they are contributors, and we should encourage them through taxation.

And I think there are other things, but just so I don't go on for too long, with the sharing, there are many things that can be done, right? But one would be, for example, to replace profit maximization by value-added maximization. Now there's the value added by corporations which is, roughly speaking, the difference between what they sell and the parts they buy -- all of that. That's the value they add to the United States, to the GDP. And they should be motivated to make that as large as possible.

Now, we have -- by adopting profit maximization, we've said all the claimants to that value-added, hey, we're going to try and minimize your share, and what's left, we'll make that as large as possible. And so we're minimizing what goes to wages, etcetera, etcetera.

But if we could adopt, instead of profit maximization, value-added as a measure -- because people want a single measure, right? -- then we could divide it up in various ways.

And I think I'll stop here.

MR. WEST: But you reserve the right to extend your remarks.

MR. GOMORY: Yes -- and even deny them.

MR. WEST: Yes, I've often said I was misquoted.

So, Adam, you've made the point that corporations are social contracts, that they're chartered by the state, and that they're given their defining legal characteristics by the state.

So, can you explain what you mean by that? And what flows from that?

MR. ZUROFSKY: Sure, Darrell. Thank you. And thank you for having us here. It's a real pleasure to be with Anita, Ralph, and you, talking about this important topic.

I think what you just mentioned, Darrell, is an important intellectual construct, and that is to say, I think in addressing this topic, we need to look at it both from the theoretical and from the practical. And as someone who -- and I think I'm the only person on the stage, actually, who currently is involved in some of these cases that involve questions of fiduciary duties and things like that, there's theoretical considerations, and I want to talk on those. And that's, I think, what you were asking about.

And there is the practical reality. One of the reasons the shareholder-value model has been successful in getting itself entrenched, is because it has a lot to recommend it in a practical sense. People can understand it. There's a share price. There's one metric. People can target towards it. It's an easy way to compare things. It's a simple, less complicated approach. And that has -- the reality is, I think we need to recognize in starting formulate how one goes about perhaps changing it.

But coming back to the theoretical question, I think I come at this a little, slightly differently than the question of what should the corporate purpose be? Actually, I think we first need to ask a more fundamental question, which is why do corporations exist? Because people don't ask that question.

And I think if you take it from that perspective, you do come to the view that corporations really are a reflection of public policy, all right? Unlike everyone in this room, who exists independent of the state -- you exist, you're a natural person -- a corporation does not exist unless it's chartered by the state, unless it's, you know, there's laws that govern it, there's powers that are given to it.

And there are people who choose the corporate form, enjoy benefits of the state -- most notably, limited liability, right? That is a decision that we as a society have made to endow this particular entity with limited liability so as to attract investment.

I mean, there's very good, practical reasons why, and policy reasons why. But it's important to recognize that corporations -- and to use a Kantian phrase, just going back to my political philosophy for a minute -- are means, not ends. And the question is: they're means towards what?

And I think the only answer that we can actually come to -- and I should say, in a horribly lawyerly fashion, that I'm expressing my own views and not the views of my firm or any of my clients --

MR. WEST: It's too late. The video's been rolling.

MR. ZUROFSKY: I know. It just dawned on me that, you know -- but, the only view that I think that is reasonable in connection when you think about that is: What is the purpose? And why do they exist?

Well, they exist to maximize overall social economic well-being. Sort of what Ralph's point was. What other purpose could they be, right? It's a utilitarian purpose.

And so once you adopt that, the next question becomes -- and it's a perfectly legitimate question I think we as a society ask: Are they doing it? Are they accomplishing that goal? Are the benefits that we think we all really recognize from the corporate form, that is to say, the encouragement of stable markets, the encouragement of investment, promotion of growth -- all the things that I think we all -- I mean, this is said as a stark capitalist -- I mean, the corporate form has been a great form.

But the question that needs to be asked is, when you compare those to the costs of the way they're currently operating, well, are they maximizing overall social utility?

And I think some good examples -- and I'll just give one or two consistent with the themes there, and then we can, obviously, touch on more of this in the question and answer session -- but the financial crisis, and the items that come up a lot are the financial crisis and environmental issues, and examples along these lines. The financial crisis is probably a good example. And, again, there are different views as to different causes of the financial crisis.

But I think most people would agree that the systemic risk that took hold -- that is to say the risk that came from Lehman, and AIG, and Fannie Mae, and others -- was not something that either the directors and officers within those corporations saw, or could see, from their vantage points, and yet it's something that, a serious of costs that ended up being socialized. That is to say, the profits of the risk-taking activity that went on, the profits and the benefits, were accrued to the shareholders of those entities. But because they didn't have the perspective, and were not looking for, quite frankly, the broad social implications of their behavior, the cost, which became enormous, ended up being borne by society as a whole.

And so the costs of those types of situations -- a number of people have asked recently, there's a tremendous amount of recent academic literature, and trade literature about this -- should that be adjusted so that that calculation, you know, is not baked into, if you will, the approach at the ground level in companies.

And so some examples -- and I guess we'll talk about these some more -- recently, there's been a new form of corporation that's been introduced, called the B Corp, the benefit corp. The pros and cons there, I think, obviously, it's a well-intentioned thing. I think it has some consequences to it. But these are, I think, steps that recognize that, fundamentally, a corporation exists to serve social ends. If, by incentivizing individual stock owners to make profits, and owners and executives to do well in a very Rawlsian sense -- again, we're having a lot of political philosophy today -- and that makes the whole pie bigger -- Ralph, your point -- great. But it's got to serve those ends. It can't just be an end in itself.

So, I think those are the thoughts that, at least, you know, (inaudible) in response to your question, Darrell, that it's sort of, I think it's an important way to frame this. And once you frame it that way, you know, the hard part becomes how do you go about doing it? That's always the devil's in those details.

But, I think, thinking of it that way is a helpful way at least for me to think of it.

MR. WEST: And we're going to come to --

MR. ZUROFSKY: Ah.

MR. WEST: -- that exact point.

MR. ZUROFSKY: I have all the answers.

MR. WEST: I do have to point out that in my five years here, Adam is the first person to bring in both Kant and Rawls into his public presentation. So you get some type of award for that. I'm not sure what the award is.

But, Anita -- I think each of our speakers, in various ways, argued on behalf of getting a broader perspective out of corporate leaders. But, Anita, I know you have focused, in particular, on the role of investors in that.

So I'm just curious, how do you think investors can help broaden the horizon of corporate executives?

MS. McGAHAN: There's -- well, first of all, I want to express that it's incredibly refreshing, first of all, to be here with so many young people, such a diverse audience, and with the group on the web, as well, to talk about these topics.

I've discussed the purpose of the corporation in several different for a recently, and I've never had the experience of agreeing as vehemently with the other panelists as I do today.

I entirely agree with my colleagues that the purpose of the corporation is to advance entrepreneurship in the public interest. The reason that we tolerate limitations on liabilities of investors is so that we can pool resources to try to accomplish the creation of resources, capabilities, and to engage the allocation of these resources for social aims that couldn't be pursued by each one of us as individuals -- okay? So that's a starting point for my remarks.

I think we need to do a number of things to fix the systems that we have for accomplishing those aims. And let me just, in the interest of time, Darrell, if it's all right, just name a couple of ideas, and then we can circle around back to whatever's of greatest interest to you.

I think we need to think carefully about co-investments with corporations in creating these capabilities. Who should be on the board of directors? What are the rules for how a corporation should engage various stakeholders? And where do we draw a line or limit on stakeholder engagement? Now, clearly, we can't have everybody that a corporation touches be on a board of directors. On the other hand, it's clearly unfair to disenfranchise co-investors, like workers and, you know, other types of fiduciaries who have engaged with the corporation in making, in creating these capabilities -- we can't, you know, keep them from having a voice, prevent them from having a voice in decisions that are being made for the corporation.

So, reforming the rules and guidelines for enfranchisement on the board of directors would be one example of a public policy, along with tax policy, that could be, you know, advanced to try to restore the purpose of the corporation and make it function effectively.

There's a number of other things we have to do -- I think, urgently -- to restore the functioning of the corporation. I think we need to think very differently than we currently do about correlated risk, and the financial system. I think the ways in which we engage financial companies in the public interest has to be re-thought. And I have some ideas about that that we can come back to if there's time.

There's also, I think, a role for transparency and reporting, and for thinking differently about creating complementary capabilities in the public domain, and in non-governmental organizations, through philanthropy and foundations that could be employed effectively.

And let me just give a quick example, if I may, Darrell, and then I'll stop, and we can come back to any of these ideas that are of interest.

So, let me give you an example. I'm associated with, and familiar with, a large teaching hospital that's structured as a non-profit, that has certain restrictions on its activities, which reflect its mission as a health care organization. It works in tandem with a charity that can do things like pay the transportation fees to the hospital of patients -- something that would be inappropriate for a teaching hospital to do, but a charity can do. And it also works in tandem with organizations that want to test new medical devices and seek to, you know, sell them for a profit later if they're proven to be effective.

And there is a complex system of interrelationships between these different kinds of organizations that's pretty heavily embedded in the traditions of each partner. And we need to look more carefully at exactly who owns the IPE, who's monitoring what, what the obligations are of each of the constituents in those kinds of relationships, how the vetting, for example, of the clinical trials on the medical devices is monitored.

We need a lot of attention to each component of these complex systems of relationships to make sure each is working effectively, and perhaps come up with some new kinds of mechanisms -- you mentioned the B Corp. There are other things we can do, as well, to grease the skids here and make sure that the parts all work the right way together, and that fairness is accomplished in the public interest over the long run.

So, under this heading of "entrepreneurship in the public interest," I see lots of different ways that we could have, you know, impact to try to get the better public outcomes over the long run.

MR. WEST: Okay.

Ralph, so we've heard a number of different ideas on ways that we could make a difference, change incentives, and change behavior. In your opening remarks, you mentioned the idea, you call it "value-add maximization."

So I was wondering if you could elaborate on that, and any other particular mechanisms that you think would be effective at addressing the issue.

MR. GOMORY: Well, I certainly think that -- first of all, what does a corporation create? And the answer is: value-add. It's the difference between, you know, what it sells for, and the various parts, and so forth, that buys on the other side. So that's what it's adding. So we want that to be as big as possible. And so, maximizing value-add sort of deals with the productivity end, but it leaves open the sharing end. Okay?

And I think, if I may go back for a moment to Anita's, in some sense, going to value-add, and allowing a great variety in how it’s divided up, is restoring, not inventing. Because that's more or less the way we operated between World War II and about 1980. And different companies did it different ways. I think we ought to consider value-added in that way.

And I can't help making one remark -- although it's not quite in response to what you're asking -- but it responds to what is the corporation here for. And we have to remember, from a historical point of view, there weren't many.

If you go back 150 years there were very few corporations. Corporations were created by the industrial revolution. You didn't need corporations when you were nation of small farmers -- and every nation was a nation of small farmers. There wasn't anything else to do, except you could be a carpenter or a shoemaker. Right? And none of those things called for large organizations. The only large organizations that existed were the army, the navy, the church. That's pretty much it.

So, in a very fundamental sense, the reason why we have corporations is because we are creating, today, goods that require -- that cannot be made by the individual or by a small group. You cannot make a telephone network out of 10 people living on a farm.

The necessity, the possibilities that the industrial revolution and the scientific and technical revolutions have opened up call for large organizations. You have to have a large organization. You can't make a telephone network -- okay?

Now, that, then, changes the relationship of the individual to how they earn their bread for their family, okay? They can't really turn around, "I'm going to hoe hard on my little farm, and so will my neighbors. And, together, we amount to something." Okay? You can't do it. They have to belong to one of these big things, because most of the economy today is engaged in making big, complex things which you cannot make on your own. And that has complicated the division problem, the sharing problem, in a way that, for example, at the time of the great philosophers like Adam Smith, et cetera, just wasn't the case.

So, for most people today, they have to belong to one of these big things. And then you see how central the question of how does the big thing divide up its value-added becomes -- much more so than in another time.

MR. WEST: So, Adam, you know, two ways that we sometimes think about changing corporate behavior are either regulation, on the one hand, or litigation on the other.

So, I'm just curious -- your sense on this particular topic of corporations and the role that they play is either regulation and/or litigation effective? If so, why? If not, what are the alternatives?

MR. ZUROFSKY: I think that's an important question. It's also sort of what I end up seeing on a daily basis in my work.

I think, before, just turning to the effectiveness of those two tools, in particular, given recent developments, I think it is important to recognize that one of the reasons the stakeholder-value model -- and I know there's a lot of discussion, it seems a consensus here, that there are real issues with that that need to be addressed -- but one of the reasons, as I alluded to earlier, that it is so entrenched, and has done so well is not just that it provides benefits, but it also provides real, practical, in-the-boardroom type of incentives for managers of companies that they very much respond to. In the first instance, you have an explosion recently of executive compensation tied to stock and equity. So, obviously, that creates a tremendous incentive for the making the decisions to have a higher stock price. You know, that's why those compensation schemes exist.

But, I think, more fundamentally, the two things, I think, that get phone calls returned to lawyers fastest from directors and officers is, one, "You're going to be sued," or, two, "Someone's launching a proxy fight." All right? There's nothing that gets my phone calls returned faster than, "You're about to get named in this lawsuit." And there's a real reason for that, because no one likes to get named in lawsuits.

And I think the shareholder-value model provides a real, practical way for executives to deal with those problems, because they say, well, I can defend myself by saying I was doing that because I was trying to increase shareholder value. And there's a lot of deference by courts given to people when they're trying to increase shareholder value, because what could be wrong with that? If someone were to come and say, oh, yeah, no, I know the stock price was lower, but I was trying to worry about, you know, broader social concerns, or environmental concerns, that might be a laudable goal more broadly, we might all agree on that. But it's a lot harder in a lawsuit to defend. It's a lot harder to say, when the proxy fight comes, when your share price is depressed by 10 percent, and a hedge fund launches, you know, a takeover bid, or an aggressive move to unlock shareholder value by getting you out -- right? -- it is a lot easier to have it -- the higher the price, first off, the harder it is for them to make that bid -- right? -- because it's more expensive. But, secondly, it's a lot easier for you to argue to shareholders, and to institutional investors, and people who are going to be deciding your fate, to say, "I've been doing everything I can to maximize your returns." Right?

So, the practical realities of the shareholder-value system should not be discounted. There are real values at the decision point.

So, to your point, your question, Darrell, how effective the two are, I think that's a different question. I think they're very effective at having locked in the shareholder-value model -- that is to say litigation, in particular -- but as far as the questions we're dealing with here, are regulation and litigation good tools, that have traditionally been the tools we use to address externalities -- and by that, I mean when a company is polluting -- right? -- historically, we've dealt with that in two ways, because that creates social costs -- right? -- as pollution in the river. The way we've dealt with that, historically, is to either have regulations saying you can't have emissions over X, you know, percent, or we've allowed for tort suits against that company, and they have to therefore pay the cost of their activity. And if the cost of that activity is still less than the benefits, then presumably it's socially optimal. If it's not, then they'll stop doing it -- right? That's litigation and regulation, and the ways that we have used them, historically, to incentivize behavior.

But I think when we talk about problems like the financial crisis, when we talk about problems like climate change, when we talk about problems sort of along the lines that Ralph was talking about, which is the growing pie but the smaller slices -- that is areas where it's very hard to see roles, or at least effective roles, for necessarily regulation and litigation alone.

Litigation, for one thing, is limited by the amount you can recover, right? If I'm a director, an officer, making a decision to increase our risk because it's likely to reward us more, but the price of going south is we go bankrupt by $1 or bankrupt by $10 billion, it doesn't matter to my calculation -- we go bankrupt. So, if the risk is worth taking for us -- you know, the cost can be astronomical, and litigation won't be a disincentive to that, because if we go bankrupt, we go bankrupt, we go bankrupt.

Same thing with regulation. I don't think any regulators necessarily -- particularly given the patchwork we have now -- are in a position to see the whole set of risks. So that way, that's why I think -- and it's a long way of answering your question, I know, Darrell -- but it's a way of saying that I think what we need to do is focus on having the entire costs and benefits of the activity in the corporate calculation. That is to say, have the corporation itself, where the decision-point is being made to take action, both look at the benefits -- and we can do that, there's tax policy ways to do that, there's perhaps investor incentives to do that. There are perhaps regulatory roles to do that. But I think, ultimately, you can't have, we don't want to have, we don't want to have regulators, I don't think, or judges saying, "Okay, that was a worthwhile goal, but that one wasn't." That gets a little bit foggy and difficult, as well.

So, to answer your question, I think that those tools still exist, and still have important roles, but ultimately, for the types of questions we're talking about, I think you have to -- they're not going to be enough.

MR. WEST: Okay.

Why don't we -- did you want to jump in, or --

MR. GOMORY: I wanted to comment on some of these very important points that are being made: one, that profitability, or share-price is very measurable -- and it is. And that's very important. On the other hand, value-add is, too. They tax it in Europe. You can measure it. So, that, the particular thing, doesn't isolate it.

And I'd also like to go back to a remark that Anita made about who should be represented on the board of directors. I think that's a very important point. In Germany, they have a wider span of representation, all right, so that there are different people clamoring for their share -- right?

And then we mustn't forget really different organizations, organizations that are owned by their customers, for example.

Now, you may not remember, but in the insurance industry -- I mean, what was Mutual of Omaha? Okay? What were all those "mutual" firms? They were owned by their customers. That means they're not for sale -- okay? And so their stock price is not the issue. The issue is what are we doing for us? It's a more isolated world.

So there's a span of things which would, all of them, need to be considered. And we probably should be trying them all, rather than saying, "This is the golden bullet."

MR. WEST: I'm sorry, go ahead. Did you want to --

MS. McGAHAN: Yes, I want to just offer one point that I think is implicit in a lot of our discussion, but hasn't perhaps been made crisply, which is that, in my view, anyway, corporations have been incredibly successful at generating new and creative ways of developing and allocating resources. I mean, my own area of interest is in health, and we would not have the medicine that we have today without private companies.

So, for me, the -- and you mentioned this, as well, of course, in your opening remarks, Professor Gomory, about the productivity of companies, and how we want to reward and encourage productivity.

For me, the way I approach this problem is by, first of all, calling for a return to a broader perspective on the obligations of companies to the communities they serve. But I also have -- I share your pragmatic interest in trying to figure out how to actually use this tool to unleash creativity and productivity for the future, at the same time to achieve a balance between that unleashing of creativity and, you know, claims on the resources that are contributed toward that end, and also, you know, there are these fairness criteria that we want to use, as well, and employ, as well, in allocating the rewards to the investments that are made.

Forgive me, I just wanted to emphasize that we don't want to restrain companies from positive productive aims that actually are fulfilling this mission of entrepreneurship in the public interest --

MR. ZUROFSKY: I think it's an important point, because we're not -- I don't think it should be taken, certainly my view, and it sounds like yours -- corporations are great social engines. They are great engines for society. They've done unbelievable things, and I think they'll continue to do them. I don't think any of these comments are -- I agree with you -- are aimed at suggesting that somehow, you know, (inaudible).

That's not what, I think, this is about. This is about how to better tie them back to their original purpose, the social purpose they serve in a broader constituency, to make it an even better institution.

I was just going to add to, Ralph, your comment that I was struck last week on --you mentioned Mutual of Omaha --

MR. GOMORY: Yes.

MR. ZUROFSKY: -- and I think it was Nationwide. I can't remember what I was watching, a football game, and a commercial came on, and I was absolutely stuck at the end, this is how they were selling their services. They said, "We have no shareholders, just members." That was their tagline at the end of the commercial.

MR. GOMORY: Yes. Yes. Yes.

MR. ZUROFSKY: And I think it was Nationwide. It might be another one of the companies.

But what struck me about that is, you know, when the advertising folks think that that's going to be effective, that there is something out there, publically, that they might be tapping into here.

MR. GOMORY: I think they're -- very good point.

MR. ZUROFSKY: That there's something more than just that. Because those folks are, you know, always trying to predict where things are moving.

MR. GOMORY: Yes.

MR. ZUROFSKY: And I was sort of struck by that. But your comment reminded me of it.

MR. WEST: No, that's a very good point.

Why don't we open the floor to questions from the audience?

We have a gentleman right here on the aisle. There's a microphone coming up behind you.

If you can give us your name and your organization -- and we'd ask you to keep your questions brief, just so we can get to as many people as possible.

MR. CHECCO: Yes. Thank you. My name is Larry Checco, Checco Communications. If I might, I'd just like to read something to you.

"The current economic climate is obviously a difficult one for the U.S. corporations. The economy is sluggish; the housing market has yet to be fully rebound. Consumer demand is down, and Wall Street's relationship with Washington appears to have hit an all-time low."

That's the way Brookings positioned today. It's as if these corporations weren't responsible for any of this.

A few weeks ago, the president of Bank of America was here. He spent his entire presentation telling us how much his bank was doing to help people in foreclosure. Never once did he mention the fact that his bank was responsible for some of those foreclosures -- and wasn't doing a very good job cleaning them up.

I think we venerate these people too much. And I think that's part of it. We do not hold them responsible. And right here is part of the problem.

I just open it up. That's all. Sorry.

Thank you.

MR. WEST: Okay.

Here, in the front, we have a question.

MR. ROTHSCHILD: Hi. My name is Kenneth Rothschild. I just am representing myself.

First of all, the earlier goals of having the corporations represent the public; to have public -- represent public policy has been reversed. Public policy now represents the interest of corporations.

The point I want to get to is this sort of licensing of granting a corporation certain rights -- tax rights and so forth. And I think there needs to be a review process that this does not come ad infinitum, that they're granted this right. And there could be periodic openings for testimony from the public, from the workers, and so forth, and so forth, from the shareholders, where a corporation has to go before the public and stand up and say what their interests are, and how they're helping the public interest.

And the other part of that is, I don't think we should lump -- and you did mention B corporations, and so forth -- but I think we have to break down what corporations are so powerful, and what corporations now, basically, are just financial holding companies. In other words, they're not as much to produce something as they are to hold money and get special rights. And that has really corrupted the whole process.

MR. ZUROFSKY: Just one comment, if I might, on that, which is, you know, I am -- I think there's a balance, because I think we're all looking for ways along the lines, I think, your question has some fundamental elements to it.

One of the concerns I have -- and I struggle with it every time I try to think about, you know, things we can do, other systems, other approaches -- is the sort of, I'll call it "very American," but, I think, broader than that, concept, which I fully endorse, of, you know, we want to let each person kind of choose his own sense of the good. I mean, as much as possible, our social, our political institutions and social institutions are around, you know, if one company thinks that something is very good -- you know, and a great example -- and I don't mean to open up another controversy -- is fracking, right?

There are people who support fracking on the grounds that it has a tremendous political, socio-geopolitical benefit. It lessens our dependence on foreign oil, provides domestic jobs, and there's lots of arguments for fracking. And there are people who have very legitimate and very heartfelt views on the other side, about the environmental risks.

And so one of the concerns I think we need to do is try to find a way to have corporations take a broader view, but not necessarily -- there's government, there's legislatures, even as interest groups -- determine what that view is, or pass judgment on that view as being right or wrong. I think one of the geniuses of the American system -- and you mentioned Adam Smith before -- is the fact that the marketplace of ideas, and the marketplace sort of sorts that out on its own. And I don't think, certainly from my perspective, there's no interest in -- I think it's very dangerous to go down the path of anything other than that.

But I do think you can encourage them to take a broader view, even if you don't tell them what that view should be -- if that makes sense.

MR. WEST: Okay.

In the very back, there's a gentleman standing up who has a question.

MR. CAREY: Last night I was watching --

MR. WEST: Can you give us your name and organization?

MR. CAREY: My name is Kevin Carey, and I'm retired CWA rank-and-file.

I was watching last night on a PBS program that showed Henry Ford, and it was a very good program. And he had such disdain for the shareholders and the rich people, and he had all regards for the worker, and raised the standard of living, and so forth, and the $5-a-day job.

I'm wondering where does this fit in, where does the worker fit in to the governing of corporations?

MS. McGAHAN: Well, we talked a little bit earlier about how, in countries such as Germany, workers are represented on the boards of directors of companies. I think, you know, in some industries and contexts -- and certainly, the automobile industry would be one of them -- that, you know, workers are co-investing with shareholders to produce the output of the corporation, and have a claim, therefore, on its governance. I would argue that, for sure.

I also would note that there were -- that Henry Ford, even despite his views about enfranchising workers, was a problematic figure for other reasons. I mean, he had controversial views that were published in the paper, under his byline, anyway, about diversity that would be unacceptable today, I think, in most modern boardrooms, for sure.

Can I also just make, offer one other perspective here?

I would argue that this issue you've raised about enfranchisement of workers, and engagement of workers, reflects a much larger set of opportunities that are being developed in the economy today -- the digital economy, as a sort of counterpoint to the industrial resolution -- that makes companies that invest primarily to advance shareholder interests vulnerable to be out-competed by rivals that enfranchise a much wider constituency.

You know, there have been multiple papers -- and you've remarked that there's been, you know, an abundance in this area in the last few years. Darrell, you've written some papers on this topic which are excellent, that companies that focus primarily on raising the share price in the short run are not going to build the capabilities they need to be competitive in the long run. You, at IBM, were a champion of building long-term intellectual property that has, you know, borne out in what's transpired for IBM since. I mean, this is a very fundamental element of the capitalist system, that companies that, you know, don't invest for the future, and build capabilities, should have a lower share price.

And as a business school professor, I think we can do a much better job in business schools, actually, educating the next generation of investors to think much more carefully about what kinds of companies ought to be supported with their investment dollars.

MR. WEST: Well, that does bring up an issue of the short-term/long-term investor problems that you were touching on.

MR. GOMORY: I want to comment on that. I think what Anita says is very much to the point.

But just let me say, from my own experience -- and I've been on an awful lot of boards, and spent a lot of years on them -- that we are at a point today when what's going to happen next quarter is, in fact, the dominant question. And I certainly spent my life trying to create long-term things for IBM, and we were successful. But IBM, in those days, did -- it was easier to take a long-term view.

It may be hard for people to believe, but most of us, on the technical side, hey; we didn't even know what the stock price was. All right? That's not what we thought about. We were trying to make a faster machine, and stuff like that -- okay? And so that was a much easier world.

Today's world is very, very tough. And the CEO who thinks long run may not be around in the long run.

And so we have to change the structure. In other words, I want to say very clearly that the problems we have -- which I think are bearing very heavily on most Americans, who are not getting the benefits of our tremendous progress -- this is not the result of evil men. It is the result of a system which is not performing well.

MR. WEST: Okay.

MR. ZUROFSKY: That's a great point.

MR. WEST: Garrett? In the front row.

MR. MITCHELL: Thank you very much. I'm Garrett Mitchell, and I write the Mitchell Report.

And, to your last point, I spent five years running a unit of a publicly-held corporation that was one of the most successful in its business. And at his going-away lunch, the CEO, who had been enormously successful, and was going off to run the Metropolitan Opera, was asked a softball question by one of us, which is, you know, "What's the secret to being a CEO?" And without hesitation, he said, "Oh, it's very simple. You manage the affairs of the corporation in such a way that the stockholders are not encouraged to become intrusive."

And it seems to me that that talks to a couple of points that have been raised here, and I want to, if I may, frame two questions.

One is, we've framed some questions today, like the one you framed about, well, what is the purpose of a corporation? Why do we have these things? So that we're not falling into the trap of being too generalized, the way people talk about "the media," the question that I would raise is: If the search that we're engaged in is to reimagine the corporation, what are the X number of elements that define what's broke?

MR. GOMORY: What's broke.

MR. MITCHELL: What's broke -- so that the solutions that we look at should speak to the specifics of what's broke, as opposed to some -- well, how about this? -- and I'm not suggesting that the three of you are winging it. I'm just saying that the discipline of defining what's broke, and then matching to that the solutions that might speak to that would be good.

And I just want to close by saying that I've heard the time "maximization" used a lot today. And I'm wondering whether one of the things that ought to be in this discussion is the distinction between "optimization" and "maximization." And, you know, the old story is that the "optimum" body temperature is 98.6, but the "maximum" can kill you.

MR. WEST: Good points: What's broke? And what are the solutions?

MR. GOMORY: Well, I think --

MR. ZUROFSKY: Take it first.

MR. GOMORY: -- yes. Well, I think, as we've all said, part of the purpose of the corporation is to create the economic goods, and so forth. I think we're good at that. I think we're going to get better that. And I think that's got to get easier and easier with technical progress.

I think where we're broke is what we do with this wonderful output. It's being given in too concentrated a way. It's not being spread broadly.

MS. McGAHAN: Can I also briefly offer a thought?

There are some things that are wrong with the operation of the system that we have, and we have discussed a few ideas here, but we don't have a lot of time.

So it's difficult to move systematically through a comprehensive list of everything that we could do to try the system at work work better -- although I do think there's a lot of work out there that we could draw on to try to develop such a list.

In addition to trying to fix the system we have, another challenge that we face is that we are now confronting, as a society, as a global society, new kinds of challenges, for which the corporate form may not be ideally suited. I'm thinking here of challenges -- what I call "correlated risks," problems such as climate change, which you mentioned, environmental challenges, endemic disease -- a correlated risk arises in the financial system, too.

But there are also problems that we collectively have, are facing, and we need system solutions that certainly are going to involve corporations. In fact, I would argue we want to unleash the creativity of entrepreneurs in the public interest to try to address some of these problems.

But the corporate sector alone is not ideally equipped to deal with them. We're going to have to actually look at a much broader set of reforms and objectives and innovations, governance innovations at the public level, in order to make progress. And we could talk about those systematically, too.

MR. ZUROFSKY: And, I think, in response, just to add on to that -- I think that the what's-broke side is an easier side than the how-do-we-fix-it side. The what's-broke side, I think, Ralph summed it up just as best as you can, which is: The dominant question in boardrooms, and among executives, and among the folks making decisions is what do we do for the next quarter? That's the first question. Other questions are secondary to that. And we have that, not because -- I share the view entirely -- not because of evil people, not because of people trying to -- it's because some of the practical realities are, as I was mentioning before, it's the easiest way for the people making those decisions to deal with what they consider to be the pressures of their job and their own well-being. And that's a human way to handle incentives. So we have to fit, shift the incentives.

As far as how do we fix it now, I think there's a couple of things -- you talk about getting targeted. And I think you have to target it in that way, too, because it's not going to be one or two solutions for everybody -- right?

You have -- my personal view is that there are sort of three broad categories of companies. There are companies out there who kind of get this idea, who try to take a broader view, who are affirmatively incorporating things like that into their corporate paradigm. Patagonia is a good example. People talk about their environmental stewardship. There's another company you may have heard of, I recently was talking with their general counsel, called TOMS Shoes, which gives away a pair of shoes for every pair of shoes you buy. I mean, that's not some of the same issues we're talking about, but it's the same sign of ideas -- the idea that incorporating into your corporate purpose some good.

Those companies, I think the solution is to provide them ways to do that, and do more of it, if they want to. And the B Corp format is one possible way of doing that -- although one of my concerns about the B Corp format is, one, it is in some sense preaching to the choir, because those are the people -- people who are going to sign up to be a B Corp are already disposed to do socially beneficial things. And by having B Corps, do we risk, by implication, suggesting that it's okay for every other corporation to pursue just shareholder value? I mean, that creates system issues. There are more complications to it, but that's a real issue.

A second category, I think, are people who only look for profit maximization, and we may not get there right now. That may be a bigger challenge.

But the third category, to me, is the most interesting, and that is companies and directors and officers, who probably would be open to doing good things, to competing for capital that is interested in being socially responsible, and having a high return. And we see some instances of that -- but that they are afraid that the shareholder-value paradigm is so strong, and it's so easy, it's the path of least resistance, because it saves their jobs and protects their income, that they need to be freed, if you will, from that, and they may very well be able to be encouraged to do, let's call it "good," as well as "well." Right?

So I think that's the area, at least from my interest, is the sort of the most interesting area to try to be fertile in the first place.

MR. WEST: Okay, there's a gentleman right there. Yes.

MR. WALKER: Jim Walker. And I'm representing myself. Yep?

MR. WEST: Yes, we can hear you.

MR. WALKER: Are we making the whole issue too complicated? I would like to step back just a minute.

I was in IBM when Mr. Watson was there and that, as I recall, he was a major owner, and the breadth of the ownership was really not all that big. There were a lot, a tremendous number of employee-owners at that time. And you referenced "mutuals."

It seems to me like we need to rethink the ownership of a corporation, and we need to change the motivation of the managers of a corporation. The rest of these things will kind of fall into place after that.

MR. WEST: Okay.

Right here.

MR. MULLOY: I'm Pat Mulloy. I teach international economic regulation at Catholic U law school -- but I was 10 years on the U.S.-China Economics and Security Review Commission.

The United States this year is going to have about a $500 billion trade deficit. $300 billion is going to be to China. In the last 10 years, we've had about $3 trillion worth of trade deficits with China.

I see part of this as the fact that our American corporations -- and this came up in the campaign, with the whole outsourcing -- American corporations have moved their manufacturing from here to there, and then we import what we used to make. And that this is putting the United States in a very bad position, both in terms of jobs for our young people, but also our international debt. We are now, by law -- and we have about $8 trillion worth of international debt held by foreign governments.

So I think this is part and parcel of what we have to think about when we're thinking about how these corporations work. The Chinese, of course, are doing a lot of their production with state-owned enterprises, which are responsible to the government and the Party. So there's a different thing going on here, and we have to think about this when we're talking about corporations and how they work in the United States.

I'd love any comments from the panelists on that point.

MR. WEST: Ralph?

MR. GOMORY: Well, I would like to, because I've worked a lot on international trade and stuff like that.

Fundamentally, given the present incentives -- okay -- of maximizing share-value and so forth, I don't think you're going to turn around this destructive imbalance of trade that you were talking about, because it's just, it's too attractive for a company to make a profit by moving its operations overseas -- whether that's low wages, it's because there are all sorts of incentives given by the Chinese government, in particular, whatever -- and then import the stuff into the United States, with a net cost, counting the subsidies and everything else, way below what can be created in the United States -- right/

So what you have done is displaced the workers -- they now are Chinese workers -- but the profits have gone up. And under our present rules, that's the goal. So this is a destructive byproduct of the fundamental motivation of our companies.

And we will not change that unless we change the fundamental -- there are two possible ways to change it -- fundamental motivation, and we've been talking about that. Or you make it impossible to do it -- tariffs, basically, that kind of stuff.

But it's a byproduct of the motivation here.

MR. ZUROFSKY: I think that the --

MS. McGAHAN: Well, go ahead, then I'll --

MR. ZUROFSKY: I was going to say, it's important to recognize -- I think you both touch on it -- that it's nice to sit here and talk about all the things we can do, but a simple solution for some companies is if things get too restrictive, and too overbearing, they're just, they're going to move. There's going to be countries out there in the world who are going to want the economic stimulus that comes from having companies there, and their operations there -- that that's a reality that should not be ignored. And the same thing is true of capital.

But I think we should also, at the risk of broadening this -- and I think it's broad enough, as is -- one of the other factors that's been going on here, at least in America, I think, is the demand on the consumer side. I mean, it used to be a chicken in every pot. It's now a flat-screen TV in every living room, right? I mean, so, and the only reason everybody can afford that is because they are produced at such lower, because the profit maximization, because of the outsourcing and the lower cost of producing those goods has been something that, you know, we as consumers, as a country, have gotten very used to. So I think you're going to -- I mean, I'm not in any way proposing we address that broader issue today, but I think it's all part of -- you point out rightly, it's all part of a broader dynamic.

MR. WEST: Anita?

MS. McGAHAN: The only point I would add -- and I do see many hands, so I don't want to take very much time -- the only point I would add is that I do agree very much with Adam and Ralph that this is a, that these challenges are not only challenges for corporations. We have to think much more deeply as a society about what we value, and how we want to invest to have prosperous and happy and abundant lives, and what that means -- whether or not it's having more flat-screen TVs and chickens and television shows and football games, or whether it's something else.

I also want to own up to the responsibilities that we have as educators for not only supporting young people such as you in conversations about what you want your lives -- how you want to prosper in your lives, but also how you're going to create the next generation of knowledge capital that's going to support the emergence of companies, the next generation of companies like, say, IBM. By the way, I should also declare a conflict of interest about IBM, in which I have -- I, you know, have an investment in, for sure.

So, the idea here is we've got to make, we've got to transform not only the corporate sector, in my view, but the education sector. We've got to think about how to support you as entrepreneurs, how to equip you with the insights you need in order to be effective as business people, how to generate knowledge capital effectively, and how to engage with your counterparts in places like China and India and, you know, Sub-Saharan Africa, to collaborate and, you know, create prosperous lives, not only for yourselves for, you know, your counterparts in these other countries.

MR. WEST: Okay, right here, the gentleman with his hand up.

MR. LOEB: Thank you. Alan Loeb, professor of regulatory policy.

Most of the discussion so far has been about what we can do to change the corporation. But it seems, strategically, that one of the things we ought to think about is the fact that the corporation, as we've described it, is pretty much predictable in its behavior. It's a self-aggrandizing organization. It's got all these characteristics. We take these as given.

And since these things are, at least at the present time, given, then the thing you would want to do is change the environment in which these decision-making bodies operate. I'll give you a good example: the pipeline. We know that if you plunk capital into the ground, there will be a behavior that -- I mean, I call, and maybe other people have called it this, but -- "the psychology of sunk cost." You can predict how people will behave decades into the future because this thing exists, and people have liabilities to support, you know, and pay off that capital. And, besides, once it's there, you know, they're going to want to behave to say whatever they need to say, prove whatever they need to prove, in order to keep that thing there.

So, once you make the decision to put that piece of infrastructure in the ground, you have programmed these people, whose behavior you know, to behave in a certain way decades into the future.

So what I think we need to do is not to go in and say, oh, woe is us, the corporation is behaving a certain way. But to say, okay, given that it's behaving a certain way, let's set up the incentive structure for it to behave that way in our interest.

MR. WEST: Okay. Good point.

Over here, the gentleman on the -- next to the door.

MR. TSANG: James Tsang. Long ago, I was an RSM at IBM when Ralph was director, so you know how long ago it was.

We've heard the word "we" a lot in this conversation. And I guess "we" means, largely, U.S. multinationals. Ralph has mentioned that German companies are a little bit different. We've heard about SMEs, like Patagonia.

Can we be a little bit more specific about "we"? If we take "we" to be local multinationals, do we see any difference? And of course, there is "we," in terms of Chinese SOEs, and Japanese and German large multinationals. Is there anything we can learn from the rest of the world?

MR. ZUROFSKY: Well, I'll just take that first, because I think I introduced the concept of, you know, what do "we" want? Why do corporations exist, and why do "we" want them?

The "we" I'm talking about there is, quite frankly, I'll say U.S. society to start, but society as a whole. That is to say, if the purpose, if the reason we have corporations, or at least in the U.S. we have corporations under a certain type of legal system, is to promote overall welfare for -- whether it be global or U.S., I'm not sure it matters -- then the "we" is the people who are supposedly the beneficiaries of that public policy decision -- for me.

I don't think of it as necessarily the corporation -- I think of the corporation as a means towards a broader social goal. And the broader social goal that society, however one wants to define it, is the "we" for me. I don't know if that's helpful.

MR. GOMORY: Yes, I think it is. And we've got to be very careful with the "we." I guess, I remember attending a meeting, it must have been about a year or so ago, and I listened to someone who later joined the administration, and he made a couple of statements and made me really jump. He said, "We still make the fastest semiconductors in the world," and he also said, "Our standard of living is the envy of the world." Right?

Now, I was startled. Take the first one. I knew that wasn't -- the "we" he was talking about wasn't corporations producing in the 50 United States. The "we" he was talking about must have been American-headquartered corporations -- something like that. So the "we" he was talking about was a very different "we" from what he was saying. He was telling us we're in great shape because we're still making all the semiconductors. We were not. We were making 28 percent. But he had a different "we." His "we" was American multinationals.

And the second "we," I don't notice that we are the envy of the world -- okay? You talk to the Germans, they don't envy us. The Japanese don't envy us. We have the highest average, we have the highest per capita income in the world -- average, right? "Average" is very different from "median." If you've got, you know, 10 guys in a bar, and Bill Gates walks in, the average income in the bar is several hundred million. The median income is whatever it was before he walked in -- right? Very different.

And it's very doubtful that the median income in the United States, which is sort of the middle person, is higher than in countries with less huge mis-distribution things.

So it's very important to worry about the "we." In fact, even in the, I think -- "We are struggling with a weak economy..." describing this meeting. Well, who is struggling with a weak economy? Okay? A lot of people are, but a lot of corporations aren't. They're making record profits.

So, once you start to have this split in your country, you've got to be very cautious about what "we" means.

MR. WEST: Okay, right there.

SPEAKER: Hi. I'm a law professor at Georgetown Law, and I teach business law. And I'm starting a new clinic there for social enterprises.

And so I just wanted to ask where you think the future of this is going? I know that, you know, five -- you know, I've been practicing for about eight years, went to law school eight years ago, and there was no talk about this in law school in my corporations class, or anything else. And now it's obviously of great interest to a lot of people.

And I just want to know, you know, I think it's because of the 2008 recession, but I wanted to know kind of what your perspective is on the future of this, and whether you think interest in rethinking the corporation is going to go away once we, you know, become a little more economically prosperous? Or if you think this is a continuing trend?

MR. WEST: Great question. Is this situational, or more enduring?

MR. ZUROFSKY: I don't think so.

MS. McGAHAN: I don't think it's going to go away. I think there may be new waves, and new kinds of concerns that arise. But it's hard to imagine that the agenda that we've been discussing is going to close soon.

Do you want to take it, and --

MR. ZUROFSKY: Yes, well, I was going to say the only reason I think -- I certainly agree with that, and the only point I'd make is that some of the challenges we're facing, some of the challenges that are beyond the capacity of the corporation --

and, Ralph, I thought you made a great point as to the origins of corporations were to deal with new challenges of the industrial revolution.

Well, now we have challenges that are -- climate change being the one I think is the most illustrative -- which are so large, and so -- and it's impossible to peg to a particular company, or particular policy. It's just an amalgamation of a lot of different things, and so you need to have, I think you need to have not just government action on that, I think you need to have the private sector on board, too. And some of these things we're talking about is to try to get that, those incentives, a little more lined up.

And so I don't think -- because I don't think those challenges are going away, and perhaps income inequality is also a part of this -- I don't see this going away, even if the tide rises and therefore some of the stress is off of it.

MS. McGAHAN: One of the, some of the ideas that, you know -- I've been hanging out, I've been spending time in Canada, I've been living in Canada for the last six or seven years, and there's this expression that, you know, "you want to skate to where the puck will be" -- right? -- in some years from now.

If you want to skate, I think, to where the puck will be, some topics that I would imagine would gain currency will relate to international law, trade issues, and issues related to international intellectual property protection; questions about coordinating solutions across international boundaries, and capacities of corporations to support coordinated responses in the face of these kinds of challenges; how to use digital technology, for example, to try to create solutions to problems such as climate change; disease mapping, trying to understand how to do things like deal with the depletion of easily-extractable minerals, like people talking about the end of oil -- really, the issue here is the end of easy-to-extract, cheap oil. You know, how are we going to deal with some of the consequences of mineral depletion, and so on?

So, you know, where's the puck going to be in 10 years, say? I think it's going to be about trying to come up with solutions to some of these problems.

He only other remark I'd like to make is that another point that -- the interest in your perspective was on is the greatest barriers to the implementation of technology solutions to the world's biggest problems tend to be cultural and organizational, not "technical." How do we change our culture? How do we address the organizational challenges, both in the corporation and outside the corporation? How do we -- you know, you're a professor, like me, like several of us on the panel here -- how do we inspire the next generation of young people to, you know, organize some way -- either in corporations, or through other means -- to work together to do a better job than, frankly, my generation has done, at actually advancing solutions against some of these problems that we're seeing?

I think that's where the puck's going to be.

MR. WEST: And, by the way, we do have several younger people here. So if any of you want to rise to that challenge and answer the question, we're happy to call on you.

Right there is a gentleman.

MR. FURMAN: Thank you. Michael Furman, and I consult in the satellite and communications areas.

And I'd like to address just the topic of organization. And I have to start with a caveat, which is an example which has been done in two fields: one in the educational field, some of the top universities in this country, Harvard, MIT, Stanford, have introduced courses that are free to the mass media. And it's been so wildly successful that one course in circuits at MIT has had more people in one semester than its entire history of the school -- which, you know, it's a very old school.

And then I'd like to address another example which, again, uses the mass media. It's something that was set up by a fellow who was very interested in games, and a computer scientist. I believe his name is Adrian Torelli. He's at Carnegie-Mellon, or was, and is on leave. And what he did is he started a program, not to decide on how he would set up a model of governance on how to do something, but, in his example, he simply set up a game for anyone who was interested, on the internet, to fold proteins. And the key to folding these proteins was, hopefully, to find a solution in HIV research. And this game became so wildly popular that some 30,000 to 40,000 people were engaged in it, so you had basically a massive meeting of the minds to do this. And in three weeks, the problem was solved by a nine-year-old kid.

So my question is, do you suppose that we could exploit technology in this way, to go beyond this room to try to figure out these really grave issues of governance, of essentially international companies whose true motive is just profit and, at least in my feeling, don't have a moral obligation to our society?

MR. WEST: That's a great question. And, by the way, that's the reason I hate nine-year-olds.

Any responses?

MS. McGAHAN: The answer is yes to that.

MR. GOMORY: Sure. Well, I think we should -- hey, we need some ideas here, right?

MR. WEST: Okay.

Over there, in the corner? Yes.

SPEAKER: My name is (inaudible). I'm an exchange student at American University.

MR. WEST: Actually, could you speak more directly into the microphone so we can hear you?

SPEAKER: My question goes around more on what is the role of us, as general consumers. It's us that ultimately decide to buy the goods. So is it an education, maybe, to change us and make us more responsible consumers? Or is it maybe marketing? It's marketing that led us to try all these goods and services that we all need. We all need our smartphones, we all need our cell phones, but we don't usually think about what (inaudible).

So, actually, (inaudible). Is it marketing that will make us demand more (inaudible).

MR. WEST: Okay, the role of consumers.

MR. ZUROFSKY: Yes, I was just going to respond to that. I mean, I was referencing, before, this company, TOMS shoes, which comes immediately to mind in response to your question, which is, you know, they give away a pair of shoes for every shoe you buy, to someone who doesn't have -- you know, to someone who can't afford shoes. And that sounds like a great thing, and it is a great thing. And they genuinely believe in it, at least my discussions with the management there, I had occasion to have them.

But they also view it -- and, I think, rightly -- as great marketing for their product, right? And there's nothing wrong with that. I mean, let's be very clear, there's nothing wrong with that. If they're actually giving away the shoes, and benefitting people who otherwise don't have shoes, and we think that's a social good, if there also is a benefit to that company that encourages more people to work there, then that's an example. They believe that they are able to hire better employees at the rate that they pay than they otherwise would, because employees go there, in part, because they want to feel good about what they're doing. And the same would be true of consumers.

I mean, there's a lot of different ways to do it, but I think -- you know, I referenced before the flat-screen in every room. I mean, one thing would be to say, okay, we don't all need flat-screens, but that's not really -- the reality is, people are going to want to buy products that they want to buy, and oftentimes secondarily think about, you know, the broader good.

But that's why I think it's so important that the shareholder-value model be analyzed, because the company could sell that same TV, and consumers could be aware of it, but they could be saying, but we're manufacturing it here in the United States, or we're manufacturing it with standards in our factories that are at a certain level, or that we give away -- we lower greenhouse emissions with our TVs. And if that could be a competitive advantage in marketing to consumers, then I think you could see a nice interchange between corporate purpose and consumers who --

Look, I think all of us agree: All things being equal, would you choose the TV that's better for the environment (inaudible) -- of course you would. So, you know, I think that those types of interchanges will be important in why it relates to what we're talking about here.

MR. GOMORY: Yes, I wanted to comment. It's sort of putting it up to the marketplace, to judge the balance between them.

I think that sometimes we put too much faith in the market. You know, Adam Smith, I guess, pointed out that it isn't to the goodness of the butcher and the baker is that we rely, but, you know, for our cakes and beef, whatever, but rather, we rely on his care for his own self-interest. This is the quote -- or this is my version of his quote. I can never get it quite right -- that we're relying on his self-interest to do this.

Now, I think we have to be cautious about that. Because it doesn't sound quite as good if I say it isn't on the kindness, or sense of honor, of my doctor that I rely, but on his care for his own self-interest.

Now, what's the difference? One essential difference is that when you're dealing with the doctor, he knows everything, and you don't. When you're buying cake, you can tell whether you like it. The doctor could be prescribing all sorts of tests for you that you don't need, if it was in his self-interest to do that.

So I think you have to be cautious. And not all things are solvable through the marketplace. And I worry, when we're selling flat-screen TVs because you're going to give -- to mix everything up -- some shoes to the poor --

MR. ZUROFSKY: A new business is founded.

MR. GOMORY: -- it's hard for the consumer to judge how real some of these things are.

Now -- that's the pessimistic side. That's, I think, overestimating the power of the market.

So what else is there? Now, I think we're leaving out the other side of human nature, right? People are not just out for themselves. And it may be this thought is not well advertised, but it is part of human nature to care about others. Adam Smith wrote a book called *The Theory of Moral Sentiment*. And the work of Darwin, which -- especially the way it's been interpreted -- focuses on individual survival being the goal, has been very seriously amended by E.L. Wilson of Harvard, who has pointed out that you need other sentiments in order for your group to survive. The group has to have internal cohesion, and that's not everybody in the group fighting with everyone else to be number one -- okay?

And so I think we have to accept the fact there is more human sentiment than self-aggrandizement, and that we don't exploit that in many situations. And we'd better be cautious if we just rely on the marketplace.

Now, a situation, just to show there are such, is the Army or the Navy -- okay? I went through training in the Navy. By the way, I didn't get the Medal of Honor; I got the Medal of Science. I wish I'd gotten the Medal of Honor.

MR. WEST: Oh, okay.

MR. GOMORY: But I had to settle for this other thing.

MR. WEST: I promoted you.

MR. ZUROFSKY: There's still time.

MR. GOMORY: But that was all about they were teaching us to care for our people, for our men. And they had a lot to work with. And we all walked out caring enormously.

So, some of these things, some of the problems we address, it may not be possible to reduce it to your individual self-interest. We really have to appeal to other parts of human nature -- and they're there.

MR. WEST: Okay, we have time for one more question. Fred, on the aisle here.

MR. ALTMAN: Hi, I'm Fred Altman. I'm retired.

And my question is, could it be that we're going -- that increasing productivity and sharing would become in conflict, because there's data now that suggests that increasing productivity no longer, even in the long run, increases employment. So, as you increase productivity you get fewer employees to share with, and so you've had all this capacity, but not a distribution.

MS. McGAHAN: Yes, I think that's a real concern. I mean, we know that many digital technologies, for example, centralize wealth, and therefore centralize decision-making authority and power -- right? So, you know, new mechanisms, I think, are mandated for kind of controlling that, and thinking about that -- and thinking about that collectively, and addressing that.

I'm not sure that we have comprehensive answers yet. You know, we're cataloging these problems, and trying to make a sincere effort at thinking through them together. So there's a lot of work to do.

MR. GOMORY: I would only comment that all the time-travelers that I know, you know, like H.G. Wells and so forth, in the forward world, where all the technologies have done everything for them, they don't seem to have employment. They seem to get fed, anyway.

Well, I don't think we're going to get there tomorrow. But there may be a different connection between how you earn your living, and whether you're an employee. You may work part time or do other things.

MR. WEST: I'm looking forward to that. That sounds like a great model.

We're out of time, but I want to thank Anita, Adam, and Ralph for sharing their views. (Applause)

And I think, in honor of the fact that this panel was able to incorporate Kant, Rawls, and Adam Smith into this conversation, they get the award for most intellectual panel that we've got.

So, thank you.

MR. ZUROFSKY: That's all it takes?

MR. WEST: So thank you.

(Applause)

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