Third Eye Blind:
How American Workers Can See What Business Professors Cannot

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Introduction

The first step in solving a problem is to realize it exists. The wealth maximization model taught in American business schools requires modification. It successfully serves two masters, consumers and investors, but is blind to the needs of a third: employees. This result is either not recognized by American business professors, denied by them, or accepted by them as a necessary cost of doing business. This conclusion must change to a realization that a workable economic theory and process must provide adequate employment for Americans.

In a recent Harvard Business Review article, "How to Fix Capitalism: Creating Shared Value," Michael Porter and Mark Kramer argue that the current business model in America is flawed and must be redefined, to a significant degree because the existing model does not generate enough employment for Americans. We agree. They propose a system of creating shared value in which they exhort businesses to explore solutions that are less self-interested and more community oriented. We agree again. In Porter and Kramer's model, companies and even governments and NGOs will search for more broadly defined, long term benefits to themselves and others. Who could disagree with that? Interestingly, the proposed solution is not entirely new. It was anticipated in much the same form in 1993 in Paul Hawken's seminal book on sustainability, The Ecology of Commerce. It appears business people are getting the message. It is time for the academic community to catch up.

Our current business education philosophy is stuck in the 20th century. It espouses a virtually universal model of wealth maximization as if it was working now and will in the future. It is not and it will not. Americans without jobs entirely and with jobs decreasing in value know

this. Everyone seems to recognize this except self-interested investors and business professors. They need to reassess their priorities.

All who support capitalism agree that a successful economy has three crucial requirements: goods and services for consumers; jobs and income for wage earners; and economic returns for investors. Most also believe it should continually raise the standard of living. Many further insist that business be practiced sustainably by treating people well and preserving the planet.

Globalization can be seen both to promote and impair this mission. Business leaders and business academics broadly support the system in which we live and the direction in which it is headed - a world in which global prosperity improves but sometimes at a cost to American employment. American business leaders export jobs often believing that, regardless of their personal preferences, they have no other choice in a globally competitive market place. Business scholars, on the other hand, typically believe it is the right thing to do. Breadwinners disagree.

The loss of jobs is a concern for two reasons: 1) the inability to find work and to provide for oneself and one's family is a social nightmare stretching across many areas of concern; and, 2) a loss of jobs reduces an economy's ability to consume, thereby eventually "robbing the engine of needed fuel". In the long run, it is not advantageous for wealth maximizers to reduce the ability of Americans to consume.

This article does not address how these jobs will be provided. It merely advocates that business professors consider this an obligation and attempt to address it. Currently, many business faculty do not believe the economy is obligated to provide jobs. Virtually everyone else does. If we do not obligate ourselves to aim at this target, we are unlikely to hit it. If we see only the needs of consumers and investors, and not the needs of employees, we are blind in our third eye.

How the Wealth Maximization Model Works

The wealth maximization model superseded the less encompassing profit maximization model. Both share the widely-held American notion that the pursuit of self-interest is both appropriate and effective. It differs from the profit maximization model in taking a broader definition of economic success than mere short-term profitability. It also envisions concern for long-term growth. It purports to serve the needs of consumers, employees, and investors. It is truly very effective at representing the needs of consumers and investors. Its record on serving employees, however, is mixed at best.

The cornerstone premise of the wealth maximization model is that the same actions that maximize stock prices also benefit society. In the model, three beneficial consequences follow from wealth maximization. They are lowered costs to consumers, pressure to improve and develop innovative products for consumers (which is assumed to lead to more jobs), and efficient and courteous service for consumers.

The model works well for both consumers and investors because their interests truly are harmonious. Improving goods and services so that customers will select them leads to greater satisfaction for society and greater return for investors. This is a perfect marriage. Unfortunately, there is a dirty little secret concerning the other relationship. The relation between investors and labor, however, is more like a real marriage. In the theory, cost reduction and product improvement result in economic growth that "re-employs" the workers who lost their jobs to cost-saving alternative means of production. However, in the real world, this outcome is more of a wish or a hope than an assured outcome. It is certainly not a necessity.

Instead, harsh reality dictates the desire to eliminate or reduce, not generate, labor cost – and not to replace it once the reduction is achieved. Only in the happiest of circumstances would there be a one-for-one or better re-employing of displaced workers. Both logic and simple observation dictate that this is exactly what investors do not want. They always want to reduce labor cost. They are not friends of labor. It is basically fundamentally wrong to claim that the wealth maximization model promotes the interest of breadwinners. It would be much closer to accurate to say it promotes their demise. This is an inconvenient truth that cannot continue to be denied without potential serious consequences.

Why Business Professors Think They are Right

Business faculty, particularly those trained in economics and finance, routinely preach the gospel that the only purpose of business is to maximize wealth. By implication, preserving or enriching jobs is not specifically required. If it occurs by happenstance, that is a nice collateral benefit. For wealth maximizers, this is not a moral imperative. It is, at most, a fortuitous likely outcome. Workers want and need more than that.

The wealth maximization position was adopted because it made intuitive sense, was intellectually consistent, and was in vogue during a multigenerational run of economic prosperity. The second half of the 20th century was truly mostly good. Academics made observations, tested hypotheses, and measured results. They were satisfied with what they found. Jobs lost were assumed to be regenerated "elsewhere" by increased investment. It was assumed without proof or substance that an equal number or greater of jobs of equal value or greater would be created. The system also assumed that "elsewhere" might mean at a different employer or possibly, in a different city. "Elsewhere" was not clearly understood to mean on a different continent. Wealth maximizing was, indeed, believed to be fulfilling the needs of American consumers, wage earners, and investors. It appeared to be correct.

For academicians, life was simple. With only one economic model of explanation being taken seriously, publication became a matter of examining data and not policy. Mathematics subsumed values. Careers were established and preserved by extrapolating mathematically the wealth maximization gospel. Naysayers and non-believers were dismissed as unsophisticated rubes or hopeless romantics. Tier I journal articles did not question whether job creation was required or occurring. When it came to assessing the health of the economy, Wall Street measures of return on investment trumped unemployment statistics. The economy was deemed to be in good health solely because investors prospered. We were even told we had experienced a "jobless recovery" from a deep recession. How incongruous is that? Those who remained jobless hardly perceived it as a recovery. Somehow, the concern of American businesses and scholars became investment, not employment. Business scholars, writing in business journals and teaching in business classrooms, declared the situation is as it ought to be for now and should be into the future.

Why We Are Wrong

So what is wrong with this model? It does not work for employees – and the needs of employees are special. They are greater than the needs of the others in the model. While it is true that cost-reduction positively impacts return on investment while displacing previously market-successful products, displaced products do not have to provide for families. This cannot be overlooked or excused. No matter how well the model serves consumers and investors, if it

does not serve breadwinners, it is broken. An economy that cannot deliver enough jobs to everyday Americans is unacceptable. Benefits for investors cannot offset losses for breadwinners. Much of the academic business community has yet to realize this.

As in many aspects of life, those closest to an activity are the last to notice the need for a change. At a psychological level, this is partially because of an intentional vested interest in retaining success already achieved and partially because those on the inside often narrow the focus of their awareness to what they have already been doing. Those not embedded in the academic assessment of business already know we are focused wrongly. The academic business community, on the other hand, seems unaware of and unconcerned with, the plight of the unemployed. It seems as if it is not even part of the conversation. For wealth maximization followers, this is a necessary outcome that needs to be accepted. Surely, it should not be.

There is also an analytical reason we are so uncritically enamored with wealth maximization. To a large extent it is correct. One can argue it is entirely correct. The pursuit of profits has resulted in more wealth, goods, and jobs, just as the model instructs. The problem is even though the goods and investment are returned to America, the jobs are in China and India. In the future, they will be somewhere else, but that somewhere else will not be the United States – or in any country with a high standard of living. All manufacturing jobs will be low wage, even if they stay in the U.S. To followers of wealth maximization, this is a necessity, even if it is unacceptable and unworkable to breadwinners. Virtually all business professors remain loyal to this model of analysis, even when it produces answers that cannot be tolerated. Professors will not let go of the tool they were raised on, despite the necessity to find a new solution. They cling to their analysis while refusing to acknowledge or address its shortcomings. They are convinced it creates jobs. They just are not concerned enough about where. It is a situation ripe for revolution.

The crux of the problem is that wealth maximizers are correct if one recognizes the planet, and not the U.S., as the economic unit. If the standard of living rises in absolute terms throughout the global economy, wealth maximizing has succeeded. It has. But American workers have lost, to the benefit primarily of Asians. To some scholars, this may be an acceptable cost of business. We imagine this number is very low. Instead, we imagine most scholars sincerely believe replacement jobs will be generated through investment in the U.S.

Unfortunately, the evidence does not support them. Not as many jobs are created as lost, and even those that are created support families at a lower level than those previously held. This has been going on for decades and can only be expected to worsen. The result is that as Wall Street improves, victory is declared, and academicians believe the system works. Then they teach it to their students.

Why We Need a Change

It is time for the academic business community to join with American workers and declare, “I’m mad as hell and I’m not going to take it any more.” It is time to stop accepting “business as usual” or, worse yet, business as inevitable. It is time to start becoming part of the solution instead of part of the problem.

Procedurally, we are obligated to pursue win/win solutions. We should look, as Porter and Kramer did, for ways to raise the world’s standard of living and our own at the same time. The evidence demonstrates that this cannot just be assumed to be happening, as so many academicians have done, despite evidence to the contrary. We have to look for ways to remedy the system, rather than merely to accept its results. Good luck to all who pursue this course. It is

likely the greatest threat America faces. It is not too much to say the future of America depends on you.

Until a win/win solution can be found, we are left with the continuing need to sacrifice either American breadwinners or the wealth maximization model. We assert our workers and families have already sacrificed enough. The wealth maximization model has to be modified overtly to protect American jobs. How those jobs will be protected is not the issue here. The issue is that three necessary changes must occur. The first is to recognize that maximizing wealth for investors absolutely results in lost jobs for Americans. The second is that this is unacceptable. The third is that we must begin teaching the responsibility of job generation to students learning about business.

Making progress will understandably be difficult. Not only do attempts to preserve or generate widespread, well-paying jobs appear to violate the wealth maximization doctrine, the historic track for record of implementation is one of dismal failure. Efforts to force the production or maintenance of employment by means of restrictive union contracts, government regulation, or community moral suasion all reach the same result. Employer cost is increased above alternatives elsewhere. The employer continues wealth maximizing and either goes out of business or moves elsewhere, resulting in local job loss, not gain. This conundrum cannot be escaped until it is concluded that the interests of investors must be rethought to include the needs of breadwinners.

Admittedly, most solutions would call for consumers to pay the cost of protecting American jobs. No one seems inclined or able to squeeze investors. And, in fairness to the track record of American economic history, consumers have typically been unwilling to pay more for goods and services to help fellow American workers. Attempts to get consumers to "Buy American" have failed far more than they have succeeded. Americans have demonstrated historically they value their wallets more than their hearts or, one might argue, even their souls. Whether this can continue remains to be demonstrated. Those who are able to work but unable to find employment know the pain. The empathy of others is less developed. It is certainly likely that unless this need is addressed in academia, in government, and in the business world, things may get much worse before they get better.

Conclusion

The history of America makes this lesson clear: wealth maximizing investors cannot be depended upon to preserve or even consider the public interest in employment if it does not also improve their bottom line. Any belief or faith to the contrary is erroneous. Depending upon the wealth maximization model to protect jobs is clearly inadequate. Historically, the model has failed society many times and had to be modified by outside action in such instances as workplace health and safety, employment discrimination, pension administration abuse, and environmental degradation. When required by external forces to solve these problems, investors did. Until required, they did not. The time has come to add now to the list, the providing of jobs.

The wealth maximization model is an evil, destructive misnomer. It disserves much of America. It maximizes wealth only for investors and consumers. For labor, it is much more of a wealth <u>minimization</u> model.

A business model that requires wealth maximization only for stockholders and products for consumers is morally wrong and behaviorally flawed. We must adopt a model that also obligates the provision of jobs for Americans. We must begin an effort to find effective and

appropriate ways to solve the problem. Denying that the problem exists is unacceptable. Accepting current outcomes as necessary is equally unacceptable. Academicians must recognize the model they espouse is destructive to America and must be begin to teach a model of creating shared value.