

Corporate Chiefs Should Refuse Clinton

by Sheldon Richman, July 1996

President Clinton has invited corporate chief executives to the White House in April to talk about "corporate citizenship." The meeting is intended to honor companies that treat their employees well in hopes of inspiring others to do the same.

Any self-respecting corporate chief who believes in the free-enterprise system should politely but firmly decline the invitation.

The theme of corporate citizenship, or responsibility, was launched in the presidential season by Republican presidential hopeful Patrick Buchanan. It was picked up by Sen. Robert Dole. Now Clinton is grabbing the issue, a traditional Democratic concern, for himself.

But the jawboning of corporations to be responsible citizens is shot through with fallacies. Let's look at some of them.

Layoffs and downsizing are allegedly the marks of a bad corporate citizen. In fact, they are signs of progress. Employers don't lay off employees capriciously. They do so to improve efficiency: to produce more or better with less. To focus on layoffs is to commit the most common fallacy in economics: looking only at immediate visible effects and ignoring less obvious, though highly important, consequences.

At any moment, resources, including labor, are scarce. There is not enough to produce all and as much of the things we want. We live in a world of tradeoffs. If materials and labor are making steel, they cannot also be making computers. Any time someone finds a way to produce a product with less material or labor, those newly freed resources are available for something else. We are richer than before.

The belief that layoffs are an unmitigated evil rests on the fallacy that there is a limited amount of work to be done. Most people think that if jobs are eliminated, the former employees are doomed to lives of unemployment. The fact is that the potential for work has no limit. As long as human beings want and need things to live and enjoy their lives, the amount of work to be done is infinite.

Long-term mass unemployment cannot occur in a free-market economy. It takes a government, through taxation and regulation, to produce such unemployment.

Imagine that the companies that made buggy whips decided to be "good corporate citizens" when the automobile came along. What would have happened had those companies kept the same number of workers no matter what? They would have wasted a lot of valuable resources before going broke. And they would have forestalled their workers' adjustment to the new world. "Good corporate citizenship" would have been bad all around.

It is true that layoffs, downsizing, and economic progress require us to adjust. Government might be able to impede change. But we fool ourselves if we think it is really helping anyone by doing so. A better way to grapple with the dynamism of a free society is for each person to think of himself not as an autoworker or a coal miner or a steelworker, but as an entrepreneur, alert to new and better opportunities to advance.

The call for "corporate responsibility" reveals another fallacy involving what is seen and not seen. If companies take Clinton's advice and keep workers on who should be laid off, they will reduce the return to their stockholders. Why should the stockholders be sacrificed to the workers? Advocates of class warfare will respond that stockholders are rich and workers are not. That's an unfortunate reply, of course, because in a free society everyone has the same rights regardless of wealth. But it isn't even true. Workers own many shares of stock through pension funds. So the dubious attempt to help one group of workers by keeping their companies inefficient harms another group of workers who own the companies.

The best employment policy is one of relentless tax-cutting and regulation-cutting. The way for government to help workers is to do what Henry David Thoreau once advised: get out of the way.

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