

COMPETITIVE ENTERPRISE INSTITUTE

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Fred L. Smith Jr.

"Irresponsibility of the Corporate Social Responsibility"

Voice Over [Male]: On February 15, 2007, the Acton Institute welcomed Fred L. Smith Jr. as part of the 2007 Lord Acton Lecture series to speak on the topic of the irresponsibility of corporate social responsibility. The corporation is an extremely valuable way of organizing large numbers of people to produce goods and services efficiently, that is, to create wealth. The wealth then flows into the hands of shareholders, workers, customers, and suppliers who are then empowered to advance their own individual goals and values.

Smith argues that to socialize this process is to reduce the ability of individuals to advance their goals, placing the values of politicians as paramount. And that nothing would do more to reduce the world's ability to address poverty and pollution than to force corporate social responsibility onto the world economy. Fred Smith Jr. is president and founder of the Competitive Enterprise Institute, a free market public policy group established in 1984. Here to introduce Mr. Smith

is the president of the Acton Institute, Reverend Robert A. Sirico.

Robert A. Sirico: We are really delighted to have Fred Smith with us today from Washington. We expected picket lines out front but I guess the global warming phenomenon has chilled them away. Fred, as probably many of you know, is the founder and present president of the Competitive Enterprise Institute, which is a free market group founded in 1984 and deals with a lot of the scientific issues related to the environment, policy prescriptions and corporate governance, and different issues like that. It is really exciting to see what a bulldog Fred is and how fearless he is taking on the issues that he takes on in a group or in a kind of environment that is quite hostile and tax-savvy.

So you must have one of the most protected websites in the entire conservative movement. A prolific writer, his works have appeared in leading newspapers, magazines and journals - the *Wall Street Journal*, *National Review*, *Economic Affairs*, the *Washington Times*; also academic work in the *Harvard Journal of Law and Economics*, the *Cato Journal in Economic Affairs*. He holds a BS degree in theoretical mathematics and political science from Tulane University where he earned an Arts and Sciences medal, Tulane's highest academic award. And he has also done graduate work in mathematics and applied mathematical

economics at Harvard, SUNY at Buffalo, and the University of Pennsylvania and we are so glad to have Fred Smith with us today. Thank you. Please welcome him.

Fred L. Smith, Jr.: You now, we were joking about global warming. Sometimes it is hard to joke enough about these issues. Yesterday, a House hearing on global warming was cancelled and they announced it was because of an ice storm. I said, "How do you ridicule something like that?" What I am going to be talking about today is an issue, I think, that is very, very important. Most of you, certainly Acton Competitive Enterprise Institute, and a wide array of organizations are trying to explain, clarify, legitimize the role of economic liberty in making the world we live in possible of making the world that others live in better for the future. Because although we live in a very wealthy part of the world, most of us are aware that much of the world still lives in poverty, specifically, energy poverty, a policy that will be harmed if some of the global warming advocates get their way. And one of the major instruments of an economically liberal world is a corporation.

The modern corporation is relatively new; it is only a few centuries old and in many ways it was -- What is a corporation? A corporation is an organization to fulfill a specialized role; to organize one of the most difficult species to organize in

the world - you and I, human beings - into pooling together to create wealth and knowledge in a specialized part of the economy. Milton Friedman points out the goal of the corporation is to create wealth for its employees, and it does this by focusing on some area - automobiles, piping, insurance, medical services.

It does not try to do everything; it tries to specialize. Critics of the corporation have never liked that role; they have always been critical of business in general and the corporation, specifically. And there is now a term that is used, "corporate social responsibility." Making money is nice but what have you done for mankind? What have you done for the world at large? Yes, you make a product that people buy, but that is just about consumerism, materialism. Not, of course, always true, but, nonetheless, they say that. What are you doing about the environment, about human rights in Burma, about all of the other issues that most of us really are concerned about?

So, essentially, the goal of the corporate social responsibility is to substitute a specialized role of a wealth-creation organization that essentially has driven economic growth for the last two centuries to another mini-political subsystem of the world. Every corporation is supposed to worry about everything. Well, most of us realize it is hard to worry

about one thing; the minute she goes in these diverse ways, it becomes more complicated.

I do not have a clock. Okay, now, what do you want me to speak to, Jake? It is 12:17.

Jake: [Inaudible]

Fred L. Smith, Jr.: Oh, well, that is great. I am a little like Hubert Humphrey; some of you know I generally speak at around 300 words a minute, but on a good day I can adjust to 450.

So whatever they do today is to raise some questions about corporate social responsibility. What do corporations think they are doing when they endorse corporate social responsibility? Why did they do this for? What is it they are actually doing when you look at the questions? And then, can they do it in a competitive economy? Is it really possible to meet the demands of these so-called stakeholder groups? And then, of course, the real more question that I think most of us are concerned about: Should they be doing this? Is this something good for society at broad?

Well, what is corporate social responsibility? I just testified on Tuesday before the new chairman of the Environment Public Works Committee, Chairman Boxer. She had invited a number of CEOs from leading corporations who are members of something called The Climate Action Partnership, a group of

businessmen who are not just concerned about money; they care about the world they live in. They are now willing to work with government to create a carbon cartel to restrict the rights of all the people in the United States to use energy, and they will help manage that cartel.

You know, we used to put people in jail for cartelization activities. Now we give them medals of honor in the Congress of United States. I have testified on that. My written testimony is on a website. My oral testimony is now available. Most of you know Congress has what are called "hearings." They are not really hearings; they basically are show trials. You basically create a world in which you invite people to come up to be patted on the back and honored; in this case, the business community.

Another is to be screamed at and castigated. That was the role I was able to play at this time. But every lynching party needs to have someone to lynch and that is sometimes the role we play in these activities. At the end of the hearing, Barbara Boxer said, "One of the goals of myself and all of my colleagues is to ensure that politics does not intervene in these issues." I said, "This is the Senate of the United States. Gambling [sounds like] in this place? I am shocked."

Corporate social responsibility, however, is a real response to a threat. There is a real threat to business in

the world today. Many of you in the business world are well aware of that. Any business attitudes today are at an all-time high. Those of us who remember our history in college, high school remember the muckraker era in America's history where Upton Sinclair and others wrote books castigating the emergence of modern America and industrialism, our early corporations. They were robber barons; they were stealing; they were robbing; they were dropping Polish workers in steel vats; they were grinding up Italians to make sausage, and so on. They were really terrible people. But, luckily, government can make things better if we had only had enough regulation, enough intervention in the economy. And those arguments actually prevailed to some extent. We did in fact create a regulatory state in America and business essentially survived in America.

In Europe, we went all the way to Socialism under the same kind of pressures. But in the modern era, we see the same kind of fights. It used to be Upton Sinclair; now it is Michael Moore. It used to be the Progressives and the muckrakers; now it is Rainforest Action Network, Sierra Club -- Rainforest Action Network, Wake up Walmart and whole array of very well-funded and quite vocal and very intelligent, competent groups who really believe the world would be better if the corporation will be better if the corporation were reigned in or re-directed out of the shallowness of making

wealth into the more important things of serving the interests, they believe, are more relevant.

Industry has responded badly, in my opinion, to those challenges. They have extended the lessons that they used so often in the business world to the political world. And my argument is that the way one responds to arguments in the private world of consumption - you and I buying their products or deciding not to buy their products - is quite different than the way you respond to the arguments given in the political world where the question is do you think or not think that some policy - war in Iraq, global warming, trade with China, minimum wage laws - very important questions, but I would argue the way we form our opinions is quite different from the way we actually spend our money. One of them has consequences that are quite different than the other.

My argument is we need to educate -- businesses find it rational to inform, to educate the consumer: "Here is what our product does. Here is what is a good idea." They need to communicate but they cannot really educate the consumer. And I'll talk about that in a second.

Why is there confusion? Because, basically, when business first encounters conflict, when a business group gets in fights, who does it first get in fights with? People, essentially, at its periphery; its employees who are mad about

some work rule change or are confused about a work rule change. Its consumers who argue the product has shifted in quality or there is a defect that was not notified; or in my situation, the instructions are written in some weird language that you cannot understand and you cannot figure out how to put the device together. Suppliers can be upset about the instability of the buy/sell cycle or maybe a change in the compensation policies of the firm. And your neighbors can be quite upset because maybe there was a spill or some accident that occurred, and you responded possibly not very intelligently.

After a lot of, "Go away, do not bother us," industries learned that when you have disputes with these what I call "nexus community," people who are linked to you - they work for you; they live by you; they own you; they supply you; they buy from you - those are people who have an incentive to think about a win-win situation. They do not really want to get a new supplier, new job and so on. But they are upset and they want to be talked to in a reasonable way. There is a way for an information-based communication strategy to work there.

And businesses create specialized agents - vice presidents of community relations, philanthropy, human affairs, et cetera - to deal with these specialized sub-parts of the corporate challenge. And those experiences, their ability to learn how to work with groups who are linked to them has led them, I

think, quite astray when they are dealing with the Rainforest Action Network, Wake Up Wal-Mart, and so on because stakeholders, as opposed to shareholders, are quite different.

A stakeholder -- what is a stakeholder? It is someone who walks by your plan and decides "I would like to run it differently than you do." One person said, "A stakeholder is someone who holds a stake and drives it through the heart of capitalism." They are not linked to your firm. Rainforest Action Network does not care whether a firm survives or not, indeed, whether markets survive or not. They have a goal, which is more or less to stop economic development around the world; and all you are as a corporation is a target of opportunity. They are looking to influence you, to make you do less and so on but they really are not involved in a win-win situation. They have demands and you are to give in to them.

I sometimes say that the environmental movement is a little like Samuel Gompers in the old days. Samuel Gompers was one of the early labor union leaders. He was once asked, "Well, what do you want?" He said, "More." When you ask the environmental movement what do they want, they say, "Less." Less economic activity, less production, less cutting down trees, and so forth." They do not really care about you and they are not likely to have a win-win situation. They need to be addressed. They are a threat to the future of your

corporation but they are not a threat that can be worked with and negotiated in the same way that labor unions can and neighbors can, and so forth.

And also, they are pack animals. Let's suppose you do make a deal with some environmental group, some particular organization. You still have the problem that there are a dozen more out there and they all specialize in the good-cop, bad-cop role. If the NRDC makes a deal with you, then, immediately, Environmental Defense or Sierra Club or Greenpeace will say, "They have sold out and now we really have to hammer it to them." They will probably do it at the same meeting but you hit them on the left and would be nice to them on the right and together they will confess to crimes against humanity. And, as you know, businessmen often are willing to do that.

Moreover the VPs for environment, for human resources and so forth are recruited from an environment that not necessarily knows much about the business. You are hiring a person who knows a lot about philanthropy or human relations, and so on; they may not have emerged through the corporation and they may not be very knowledgeable about what it takes to produce oil or to produce an automobile or to produce a service product. And, often, they are recruited from the same academic, intellectual milieu that the anti-business community [indiscernible]. They will represent the businessmen; after all they are working for

them. But they surely will not respect them. They are a little like Marvin Beli. As he once said, "How anybody can get an innocent person off, I get guilty people off."

And a lot of people treat the corporations as, "Of course, we are guilty but we still want to survive. We still want to make it. We will turn in one of our fellow businessmen." They will go native. Going native is a risk in any organization and certainly a risk in these peripheral portions of the modern corporation. And we should worry about that. Now, why does the CEO not do that? Why do the CEOs not say, "Look guys, you represent the shareholders' interests. I want you to go out and negotiate but I want you to make sure that you continuously do it in a way that only creates value for our shareholders." Well, they do not do that because CEOs have not spent a lot of time worrying about this involvement in the political world.

Business is a very complicated process as many of you know better than I. It takes a lot of concentration to figure out what you are going to do to ensure that your company is sustainable, continually profitable. To spend a lot of time on these peripheral issues - human rights in Burma, fair-trade coffee or unfair-trade coffee or whatever kind of coffee you are drinking this week - is a very complicated process, and when businessmen go to Washington it is not pleasant. Businessmen in front of a political committee -- in their own

world they are giants; they are empire builders; they are wealth creators; they are respected.

When they go to the political process, they are nobody. They are targets of opportunity. They have bulls' eyes painted on their chests and it is amazing to see how they are treated before a Congressional committee. You see CEOs of major corporations quivering in their midst because it is not their world. They know they do not know the language of politics and they often find themselves treated badly. So they sort of say to their vice presidents of government affairs or lobbying, "Make it go away. Create a deal. Do what you have to do but I want this off the table. I do not want to worry about picket lines outside my plant or editorials in the paper talking about how horrible this corporation is." They adopt a policy which is, obviously, appeasement-oriented; but as we know from history, appeasement policies rarely work. And, indeed, if you look at the array of policies that the modern corporation addresses, none of them work.

There is what I call the Pharisee strategy. The Pharisee strategy, of course, is the strategy talked about in the Bible where the businessman gets up in front of the audience and he says, "Thank God that I'm not as bad as my fellow businessmen." Well, in the first place it is not altogether credible. And secondly, does that do anything for the stability of the

market, the legitimacy of the marketplace? The second is what I call the Mafioso approach. The Mafioso approach is, "You got us. We are slimy, greasy businessmen. But hey, who funded the last three novenas at the cathedral? We use our money to fund good things." Well, the obvious response is, "Well, keep funding the good things, stop doing the bad things." This has not explained what it is doing. It is not likely to get credit for it.

The third is a quasi-rational strategy: "Look, we cannot control politics. We are buffeted by political pressures. What we need is regulatory certainty. We want the government to set rules, good rules, bad rules; we prefer good rules but we do not care. Set the rules up - 55 miles an hour, 12 miles an hour, 200 miles an hour. It does not really matter but put the rules there and then we will live with them. We can then get back to business and ignore politics."

But, of course, regulatory certainty is one of the fool's games of all time. I gave one lecture once I called "Lucy and the regulatory football." The businessmen are convinced that this time the government agency will hold the ball firmly and the businessmen will run and kick it over the field goals and of course, mostly they fall back on their assets. You do not necessarily get this kind of a situation there.

And the last one is the one you -- the appeasement strategy; tried in Europe, of course. It is what I call the "Crocodile or Captain Hook" strategy, which, essentially, is if you feed the crocodile your leg it is much more likely to become a vegetarian. The evidence is not very clear on that but it does not suggest that is a valid concept. When Chamberlain went to Munich and came back, he waved his paper in his hands and said, "Peace in our times." A lot of the business community sometime comes back and waves a piece of paper and says, "Greenpeace in our times," and the response is pretty much the same - encouraging people that, "Look we are vulnerable. If you push us hard enough we will give way to you." In a world where they do not see any value in what you are doing in the first place means that you are just encouraged to take another bite out of your corporation, another bite out of shareholder profits.

These strategies do not work; they are failing, and business needs to think it through. But can businesses -- even suppose it made sense. In a competitive marketplace, in a world where doing anything is complicated, what does it mean to commit your company to advance environmental equality? You know, environment is a very, very big topic. Does that mean the next million dollars you have is going to reduce liquid emissions, wastes to the stream or air emissions or reduce the

number of materials in your products, increase recycling, allow your plant facilities to become wildlife habitats? There are an infinite number of ways you can improve the environment. What metric do you have to decide what to do? And that is just the environment. Suppose human rights are added to your agenda and so forth?

The genius of capitalism, the genius of the market is it creates specialized institutions which provide specialized purposes. They work within their roles in the culture of their society, but they are not trying to do everything. They are trying to do something that is extremely important: Create wealth and knowledge, which is then distributed to customers, to workers, to suppliers, to shareholders who then use that additional wealth to pursue the values that you and I have, that individuals have.

Individuals can decide that they would like to spend their money on some environmental project or some issue or problems in Romania or Burma, and so forth. But in a society as heterogeneous as the United States is, there are very, very large number of things we might want to do. And rather than the corporation acting as our big daddy, making those decisions for us, spending the money that would otherwise be dispersed to the population in a way that is politically correct, maybe some others have different goals and different ideas. And should we

not be able to pick up our choices, our values and advance them?

The whole idea of the corporate social responsibility movement is to take away the choices we have and to give them to the elites, the politically preferred rulers of our society - the NGO, nongovernmental organization -- NGO, bad title. Anyone who knows the NGO movement in practice knows it is not a non-governmental organization. It is a PGO - pro-government organization. They have never seen a government program they did not want to expand.

And also, this whole approach of saying, "What do you want? We will give it you," betrays what should be -- and Acton has done a wonderful job of trying to re-instill in the business world the understanding of its moral legitimacy. There is a gospel song. I forget who sang it but it was, "If you do not respect yourself, nobody else will respect you either." If business stops arguing for its own legitimacy that it is an important -- not the only, but a very important actor in a world that is still desperately poor, desperately ignorant, then who else is going to respect it? Who is going to defend the corporation? Acton, CEI? But the resources that corporations have are much bigger than ours and, if correctly deployed, would, in fact, have a role of making this possible.

There is a book that I found interesting called, *Creating the Corporate Soul* and it discusses how the business community responded to the attacks of the muckrakers at the turn of the 20th century, the 1890-1920 period. And then business realized it was under assault; it might be nationalized; we might move to a socialist economy as Europe did. And they decided that they had to explain themselves somehow to the American people. They first went out to educate the American people. Some of you know this response of the business community; when they are attacked they call in their communications person and their director of public relations and they say, "I want you to go out and educate the American people on this because as soon as the American people understand the nuances of this situation, they will be on our side."

Well, the average person is pretty busy. He has a lot of things he goes to bed at night that he has not fully explored. Should he re-finance his house? Where should his kids go to college? What retirement plan should he have? Should he get married or maybe divorced, etcetera, and so on. Most of us do not read the Federal Registry before we go to bed. I mean, it is just a fact of life out there. And we do not because it would be irrational to do so. We have many competing demands to be educated and we rarely fulfill them adequately as it is. Most of us wish we knew more. Certainly, I wish I knew more

about what my 401K plan is doing. I know this is something should be able to understand.

The term in political science is in the political world people are "rationally ignorant." In the market world, people think about what pension plan they should have, what kind of mortgage they should have. Should they buy a car? If so, what kind of car? Should they re-finance it? So a lot of questions out there where information is relevant because the choices I make as a consumer make me better off or less well off. So being an informed consumer is fully rational. Being an informed citizen is not so rational because "What can I do about global warming or trade with China or minimum wage legislation? I'll have opinions because Americans are supposed to have opinions but my opinions will be fairly fastly linked to knowledge.

Survey after survey shows this. They asked Northern Virginia people who their congressman is, who their senator is. And [indiscernible] come back amazing [indiscernible]. In fact, we just found out in a survey 13 percent of Americans have never heard of global warming. Now, how in this world with daily discussions of death, doom and destruction you can avoid at least hearing of that thing? It was amazing, which suggested a lot of Americans basically have important things to do and listening about the end of the world just does not fit

in their agenda. But what do you do in a rational [indiscernible] world? You have to show that you add value. You have made the world a better place by the disparate values of the American people. There are a lot of values out there.

We at CEI believe three of the core values that we should always address are the value of freedom. A company, by giving you more choices allows you more freedom, more opportunities, more flexibility with your life. But capitalism, the market is a great freedom expanding. It disperses the power of the centralized economy by having ownership in many, many different places, by having people always have to do well to do today, but even better tomorrow because someone else is always at their heels.

It is also a more secure, a more orderly society because competition is an incredible way of bringing the best out of people because all of us -- not you guys probably, but I occasionally am a little lazy and the realization that the Acton Institute is doing a great job of advertising makes me talk to Jodie and say, "Jodie, they are doing a good job. We have to do better, too," and so on. We all are kept a little better, a little more secure, a little bit more competitive because our market is always saying, "No matter how good you are today, you have to do better tomorrow."

And it is also a society that is egalitarian. It is a freedom-enhancing society. We tend to be a little silent on that thing, but the genius of capitalism is not that it made products available to the wealthy elites of the world. Schumpeter said it years ago: "The wealthy of the Middle Ages had a very nice lifestyle. No electricity; who cares when you had 100 servants to light candles everyday and walk in front of you. No mobility, when you could travel with a whole fleet of coaches and people who laid down ermine coats for you to walk over." Hey, not so bad traveling; a lot better than air travel today, I'll tell you that.

What capitalism did was to democratize the privileges of the elites to make it possible for the shop girl, for the peasant to enjoy the privileges that had only been enjoyed by the wealthy elites. And, of course, then you give choices that no one had had before. The classic example that P.J. O'Rourke uses is, "If you do not like civilization, I just have two words for you: 'modern industry.'" Think about what it was like getting a tooth out before anesthetic, and so on.

Civilization has not only made us freer, has not only made us wealthier; it has also made us a fairer part of the world. And the challenge of civilization is to move those institutions of liberty into the darkest spots of the world, into the parts of the world that still lack the wealth and the knowledge, the

markets. And, of course, to do much better in our own country too, because there are many areas where we inhibit wealth production. One of them is corporate social responsibility.

Well, okay. Corporate responsibility, social responsibility does not seem like a good idea. Are there any real risks to it? Well, I have mentioned some of them. It certainly lowers your credibility of business. The image of business is already much lower in America than it should be. We should be proud of the fact that we have institutions that have been able to create sub-groups that have created specialized products, specialized knowledge. Since you are from the oil and gas industry, I -- oil is a classic example. Some of you probably know that the first barrel of oil was drilled in Titusville, Pennsylvania. I think it was in 1868 - 65, 68 feet below the surface of the ground. You could almost dig that with a shovel. Today or yesterday, another barrel of oil was drawn out from the Gulf of Mexico with 15,000 feet of pipe between it and the source of that oil. The price of that barrel of oil in real terms yesterday was no more than the cost of that first barrel of oil in 1868.

By being creative, by harnessing man's genius and energies, we have been able to overcome the scarcity. The easy oil have been used up but we have replaced that ease of access with the brilliance of our minds, with the creative

technologies that have flown from a capitalist economy to make it possible to draw that last barrel of oil of yesterday at a cost no greater than the cost of that first barrel of oil back in 1868. That genius of organizing humanity to serve humanity through using self-interest in an institutional way - through property rights, the rule of law is - one of the great institutions of civilization. And it is one that corporate social responsibility threatens.

It also threatens the corporation's ability to operate as a wealth-creating institution. BP, British Petroleum, as it now became known as Beyond Petroleum decided it was going to be an enlightened company. And the head of the organization, John Brown, decided to go out and become a politically correct businessman, and he certainly did. He was on the front covers of every newspaper, of every magazine. He was the leading kick-off speaker of every correct seminars, foundations, Davos in Switzerland, around the world. He became Lord Brown. He was actually knighted for his great service to mankind.

But in the process, Beyond Petroleum became logo, an idea. If you were working in British Petroleum and you are a bright young engineer, you are a bright economist, you are an analyst, you are a geophysicist and your CEO is saying, "Petroleum, that is so yesterday. We are in tomorrow, into solar power. We are into renewable energies. We are into bio-fuels. Wind power is

tomorrow." Well, you are ambitious. You have a career ahead of you. Do you stick with the boring activities of yesterday, keeping your refineries up to snuff, making sure your pipelines are maintained? Or do you join the wave of tomorrow, the green future of the world and be focusing on these new niche markets? And so you with all the spirit, BP's total core business remained oil and gas. It was only the rhetoric that moved to this new situation.

But rhetoric has implications. If you are a young person listening to the guidance of your bosses, you are likely to move in that direction. Did it have an effect on BP's operation? We do not know. But BP had one of the biggest refinery disasters in America's history down in Houston. BP's oil pipelines in Alaska were leaking; not many others are. Does this mean that there is a danger? It certainly means it is harder to keep your eye on the ball of wealth creation when you have these diversionary targets of saving the world.

Saving the world is a wonderful thing. We at CEI and Acton and other places like us are doomed to be idealist in this area. But most of you have realized that focusing on wealth creation is a much more intelligent idea for most people in the world. We certainly see slower economic growth. We lose the metric we talked about before. And one issue I mentioned before - today in a free market economy the wealth

created by a corporation is dispersed in the form of better products or prices, better salaries, better working conditions, more jobs, better purchasing opportunities for suppliers, better neighbors and so on.

If we go to a corporate social responsibility, all of that dispersion of wealth is now focused on the corporation. The corporation now dispenses all that for us. We go from the democracy of the marketplace to the interest group political world of the NGO movement. Those of us who know the NGO movement, I think, would be very worried about entrusting our freedoms, our futures to people who do not believe there is a future.

All day, well, I was at this meeting Tuesday, I told you, with PG&E, a California-based utility company; BP, a British- and US-based oil and gas company, and then there was Caterpillar and so on. What are they doing? Well, some of them, of course, just are trying to be politically correct. They are posturing. Some of them think that if this goes through they will make a fortune. Enron as some of you know was a major -- the late unlamented Enron had many things it did but one of them -- it was actively pushing for global warming policies because Enron was the leader in energy trading. They were the ones who ran the derivative markets, the futures market, and so on for oil and gas and so forth. And their

argument was, "Wow! If energy becomes rationed, if every American has to have a credit card when they fill up their gas tanks or go on their trip to see their grandmother or light their house at night, then the carbon prices, the price of energy goes up and up and up. We as the ration managers will be the managers of a carbon- constrained future. We will make even more money than before."

They thought it was the best business opportunity they saw and they lobbied President Bush and Congress to impose Kyoto and so on. Well, they went bankrupt, luckily, soon enough. But imagine had they been successful and we were all living in a carbon constrained world. I mean, carbon is constrained in the sense we have to pay for energy but we are not paying for energy in the sense that Europeans do. In Europe, gasoline prices are, what, six dollars a gallon? Electricity prices went up 50-60 percent in one year in England and Germany. We went berserk when gasoline prices went to \$3 a gallon. Well, let me tell you, \$3 a gallon is nothing like what you need to reach the Kyoto style targets.

What does it mean [indiscernible] corporate social responsibility is the perversion of the realities that we all should know. The modern corporation by its very existence has become a responsible institution at the task it is assigned to do. Not all the problems of the world, but the task it was

just trying to do, which is to organize people to create a product at an affordable price, to create wealth, to create the knowledge that you have to have if you are going create wealth consistently over time. To divert the corporation from that task will mean to weaken the wealth creation, the knowledge creation, progress that we have seen over the last two centuries and it would do nothing to achieve these myriad of other goals because only you and I, only individuals can pursue the myriad values that a moral society has.

We really cannot expect a corporation to go around and make the world safe for humanity. That is not a specialty, that is not a knowledge, that is not a skill that a CEO has ever been trained to have. We need to realize that the market is not only a wealth-creating organization but it is, at least, a morally positive element in a world that needs more morally positive elements because it disperses power. It insures that power is not concentrated.

Some of you know the fantasy novel, *The Lord of the Rings*; different opinions on it. It is a wonderful novel in my opinion. And the ring you realize was a sense of power and the bad guy, Sauron and the evil forces, those that you see in the movie, wanted to take that ring and do good with it, just like the corporate social responsibility people do. But goal of the good guys, of Frodo and his band of fellow idealists, was to

destroy the ring, to disperse the power among all the people of society. Dispersion of power is a critical element in a liberal society, is critical to economic liberty. Corporate social responsibility threatens that. It is a bad idea and we should not be doing it. And that is my message today. Thank you.

I think we have questions, right?

Male Voice: First, I want to make sure that you know I'm not a greenie. I would not be here if I was. What will the politically correct individuals in society have to complain about when the American entrepreneurial spirit converts us to a hydrogen society? Will they complain that we have destroyed the hydrocarbon industry? What I want to know is what is the limit that these people will go to to complain?

Fred L. Smith, Jr.: The question he is asking is is there any way of satiating the antagonisms of the enemies of freedom? No, there is none, actually. I was once in a conference where a woman who wrote a book about the automobile -- somebody you may know; she was a writer for the *Nation*. And they were talking about cleaner cars, hydrogen cars, bio-fuel cars, hybrids and so on. And she said, "Let me make it clear that none of this adequate." She said, "Let's suppose, in fact, we created a car that had absolutely no pollution. A hydrogen car that was just producing water and," at the back, "Would that

not be --?" "No! Because then that car would have less antagonism, we will have even more cars." "What about congestion? Suppose we could eliminate all congestion. Would that --?" "No, because, then, people would like to drive even more." "What about the cars are recyclable? We made it totally recyclable, so the whole car -- every car turned into a new car and the end of its lifetime? Would that not be a--?" "No, again. It would expand the car's -- the car in those situations would be even more popular, alienating man from man because a car allows us to go from A to B without someone telling us about it." Mass transit is what they want to see. They want us to be in railroad cars going from A to B.

There is no real way of satiating the -- but, remember, the elites who oppose economic liberty are only empowered to the extent they can link to the people of the United States. William Buckley said, "I would rather be rolled by the first 435 names in any of these telephone books in America than by the Harvard faculty." That idea has a lot of sense to it. Americans are not crazy but our intellectual leaders sometimes are. We need to find a way of severing the power they have because they essentially reach to the humanity. They are seen as representing the poor of the world. That is a discredit to us.

We have failed to make it clear that economic liberty has been one of the most important things. The democratization that a market brings has been critical. We have not made that point clear enough and we should. As you know the Acton ads are exactly designed to do that and they are brilliant and effective, I think. Jake?

Jake: Fred, I'm wondering if you have some comments about ways in which the incentive structure could be changed so that corporate executives would not be encouraged to appease because the problem is, given short-term horizons, that is how the incentives are - appease in the short run and worry about the principles sometime after that person has retired.

Fred L. Smith, Jr.: Well, there are two major approaches that can be done in that area. One is to make the market for corporate governance better. You want to have CEOs who are appeasing their anti-corporate allies be chastised, be disciplined in some way. So you -- it would be like if a football coach decided to have his blockers and offensive line not be so mean: "Do not hit them so hard. Could you not let them win a few times? You are hurting their self-esteem." That coach would not survive very well in the world we know today because winning games is pretty important. So one way is to make corporate America more like football leagues. Unfortunately, as so many of you know, we have anti-takeover

rules in America. We have rules that make it harder for companies -- something called the William Sack [phonetic] which makes it harder. So one way would be to make it easier to fire a coach. That would be one.

The other is, I think, the business schools. I think all of us who are concerned about this should be aware that the rot [sounds like] in the business world is not just in the corporation itself; it is in the business schools. Most business ethics courses -- I do not know about yours, but most business ethics courses consist of how to apologize for capitalism in three or four languages. There are, "I'm ashamed to be a businessman but here is how to cover-up." And it is very important we go to business schools and try to create an alternative ethos, an alternative approach. And there are a lot of materials needed. I mentioned to Mr. Washington earlier tonight that -- we have done one report called "The Role of Business in the Modern World" which addresses this issue to some extent. You can get it through our website and it is something you might want to read.

The other one is I think that the CEOs have to take seriously the political world. Business has been allowed to treat politics as a side issue. Fifty percent of the US economy - roughly a little less - is now politically determined. If fifty percent of your customers were ignored

you would be crazy. And yet, business is allowing itself to be buffeted and passive or appeasement-oriented. Business needs to recognize that it is in the value of a businessman to live in a more competitive world. Businessmen are picked because they are entrepreneurial. They have skills at making products. They are not only good but that is what they are in business for; otherwise, they would be in politics. Politics is about wealth re-distribution; business is about wealth creation. You want to find ways of strengthening businessmen's realization that when they interact with politics they should be fighting for a world that makes it easier to create wealth, a world that is more economically liberal, a world that is less rigidly regulated, a world that is less taxed, a world where competition is more [indiscernible] done. Not all business would agree with that.

You know the line from the Nobel Prize winner, George Stiegler. George Stiegler said, "You know, a lot of businessmen believe that competition, like exercise, is good for other people." A lot of businessmen see government as a way of suppressing competition and those businessmen are very active in Washington. The businessmen who really believe they are first class competitors and would like to see more competition because they think - and many times they are right - that they can outperform their lackadaisical go-to-

Washington-to-be-bailed-out competitor should be fighting for that freer world. They should be working with groups like Acton and others to bring them out that kind of a world.

So that is what are their answers. One is to try to get the CEOs on our side aware they should be politically active for freeing up the economy like the other CEOs are active in trying to further enslave the economy, and then make the market for competition more like football.

Male Voice: I liked your talk very much. My frustration is as a kind of conservative person politically, why cannot -- why is it not -- where is the courage or the efficiency? I do not know; we cannot communicate in the world we live; like, for instance, lower taxes are actually creating revenue and expanding our economy. Why is that simple concept not understood? Or why cannot there be an alternative viewpoint, a legitimate scientific viewpoint that is aired on global warming without it being ridiculed and quashed [sounds like]? Why are we not successful that way?

Fred L. Smith, Jr.: We just had a meeting earlier with Jay and others at Acton, Jodie and I. The point of view we always have, if we are so smart why are we losing so many battles? I think, look, part of the reason is the people who believe in government, who want to see a lot more government control, political control, like meetings. They go to meetings

all the time. They sit around and hold hands and sing *Kumbaya*; then they love the thought of spending the next 10 years fighting for some reduction of freedom. We basically do not like meetings much at all. We go occasionally and then we want to go back to our private lives. Individualists are not as political as collectivists.

And so, part of the problem is, culturally, the political world is selectively staffed with people who believe government ought to expand rather than government should contract. How many good Republicans went to Congress over the last 15 years and were forever? A lot of people go to Washington to drain the [audio glitch] pretty soon decide, you know, properly considered, it is a hot tub. We have a real problem there, and I think one of our challenges -- this is one that occupies me. I run an organization but my passion, substance within the organization is what can we do to make good policy good politics? What can we do to explain that our policies not only make the world freer, not only make the world more secure, but also makes the world fairer?

I think the fairness argument is the one we lose on more than anyone else. I think it is partly because it is not our natural voice. As individuals we think fairness is each person being allowed to succeed or fail and we do not always have a way of addressing "What about the failures? What do we do

about those failures?" We need a better rhetoric, a better plan. We need a lot more humanizing of our argument.

We are also too intellectual. The number of times we write tomes 10, 20, 30 -- my staff does it. You know, massive - we [indiscernible] interest in global warming. We have a 100-page monograph on our website that discusses it in detail. Most people are not going to read it. Now we are going to try to turn it into simpler language but analysts want to educate. They do not always understand that you have to communicate. Jodie is holding up a book that some of you might want to look at. It is how to market the ideas of liberty, or if you got my gist earlier, how do you talk to people who are not listening? Because people have no - I do not know if you have this. Go to a cocktail party and let's suppose you have read up on global warming. You know a good bit about it and you get there with one of your liberal friends - or in my case, sister-in-law - and you start explaining to her. And pretty soon she is backing away and says, "I think I'm going to get another drink." You have to recognize in the world of rational ignorance we have to create humanized images of what the losses will be of an over-regulated, over-taxed, over-restricted society. We have plenty of examples of that. We need to be much more creative at marketing.

I'm sorry; your name again is -- ? The woman next you. Catherine has been working with Acton on trying to find language and rhetoric to do this. It is a critical task. We need to spend in a sense more time on marketing; not that we would neglect analysis. That is still important, but if you build a better mouse trap and do no marketing you are going to end up with warehouses full of wonderful mousetraps. Or as I tell my senior classes, "You know, you can have a bedroom full of extremely exciting sex manuals but if all you have done is read, you are not going to have any children. You have got to do a little bit more out there."

J.C.: I'm J.C. [indiscernible], an admirer of yours. I have a question. Many of us are generous to our alma maters or other institutions of higher learning. Are we being part of the problem? Are we enablers and is there a solution for that?

Fred L. Smith, Jr.: Well, I'm not going to tell everyone not to give to their college. I do not give a penny to Tulane, I should tell you that. Tulane has the Environmental Law Center, which has done more to suppress economic growth in Louisiana than any other institution I know about. It suppressed the chemical plant in one of the poorest areas of Louisiana. It did nothing, as far as I know, about alerting us to the evils of national flood insurance or Fanny [phonetic] and Freddy's [phonetic] failure to blow the whistle on the

corps of engineers. Geez, smaller last year than next year. Well, nobody cares. I do not care either.

I think that there is a real risk that the universities as the centers of the intellectual establishments in the United States have been unchallenged to think about alternative policies. It is harder for us to get on campus now to debate than it was 15 years ago because 15 years ago we were not at [indiscernible], a conservative, a libertarian who could stand on their hind legs, and talk was, "My God! Of course." A woman preacher, like a [indiscernible]. So they loved us there because they really get up and then they would smash us and everybody felt good. But they did not smash us. And as we started winning debates, all of a sudden they were not quite so interested in us coming on campus. And now student newspapers are burned if they are the wrong kind. The so-called politically correct speech is dominating campuses.

No, I think that alumni groups ought to be challenging their groups in saying, "I'm not giving a penny to this program until you ask -- unless you have balance in the program." And remember, chairs of free enterprise can be very good. But a lot of chairs of free enterprise slip very easily into either someone who would have got the job anyway, which should mean just funding something that would happen, anyway, or slip into some fashionable type of the college. I am not optimistic

about the universities in the next decade. I think the universities --- I'm in the 60s generation; I was a leftie. *Mea culpa.*

But some of us -- I went to work for the United States Environmental Protection Agency. Every socialist ought to work in government for awhile before they settle down. It changed my mind completely. When I left EPA, I remember one of my friends. I was a little bitter and my friend said, "Now Fred, do not be too bitter. You know, you have to recognize no institution is perfect. You know, you do not want to swing an axe and cut any live wood in an organization like this." I said, "Bill, you could swing an axe in EPA for weeks and not hit live wood." But no, I think the university system is a challenge. I think the business schools which in a way should be our schools -- engineering schools, physics schools; the more substantive ones tend not to have a policy directive but they breathe the same air that all the social science and liberal arts students do. And so, they come out sort of, "Well I do not know exactly about this but I guess they must be right. I mean, I read it in the paper. What do I know?" I mean, I do not know how anyone in America cannot believe in global warming. You have got five times a day how the world is going to end. It is snowing - global warming. It is a drought; it is global warming. It is raining; it is a -- there

must be something that is not to blame for us. And it fits the religious idea of the environmentalist very well, too. We had our expulsion from paradise. I would say that had God not done it first, the Sierra Club would certainly have kicked us out of the Garden of Eden.

And now, we have our apocalyptic vision - it is the end of the world. Mankind's sins against the planet is -- I do know this about Calvinist theology. It was not mankind's sins against the planet; it was mankind's sins against God that got us into trouble. [Indiscernible]. It is very bad what is going on in campuses nowadays, and I think we need much more challenge on campuses. We do need a few faculty members who are -- there are not many others. It is very lonely being a faculty member who believes in economic liberty on any campus in America.

Male Voice: This is more about your thought about healthcare and business. Should corporations be responsible for the healthcare of their employees? And it is certainly fairly entrenched, but we are certainly struggling with that here in Michigan. There are a lot of proposals being kicked around state by state to burden business even more with that.

Fred L. Smith, Jr.: Yes, it shows -- I'm sure you all read Acton's literature. You have heard about the concept of unintended consequences. In World War II we decided to freeze

wages, and since in a real world when you have to reallocate millions of workers from whatever they were doing in a civilian economy to the wartime economy, you have to find some way of re-moving people into different kinds of jobs. Since you were denied salary ability to do that you looked for other ways and one of the ways you did it was benefits. And the Congress complied with that by creating tax exemptions for it. Those benefits in World War II, of course, were pretty small but without any other incentives out there they did not move lots of workers. And then we did not re-think it after World War II and those benefits in a world that was essentially no competitors - I mean, think about an American businessman in 1948. There was no industry in the world except ours, one of the more easy places in the world because the European economy, the Asian economy was dead. So you could get fat and lazy and one of the ways you get fat and lazy when your labor union comes to you and says, "We want some extra benefits," hell, give it to them. Why not bother? You could pass the cost on. And so, small benefits became big benefits, became what we now call legacy cost and may yet destroy large parts of America's traditional manufacturing sectors. All the auto industries as you know have tremendous problems with legacy cost.

What do we do about it? Well, it is obvious we made a mistake. It is awful but it is not easy to reverse a mistake.

The personal savings account idea, the health savings account idea create the same tax benefits for individuals that corporations have. And probably we should have -- you would like a situation were a worker did not have to worry about losing his health benefits when he lost his job. Think about auto insurance. Imagine if your auto insurance was tied to your job. When you lost your job you would lose your car. It is crazy. We are working on that. We have no magic answers. The ones that we are doing right now, the president had a very small proposal in his thing. It makes a little sense -- it makes some sense.

The problem is, it is going to lower the overall perceived cost of healthcare and it means we will have even more subsidies, distortions in the marketplace in healthcare. We need a free market in healthcare more than anything. It is not wrong that we are spending more in healthcare. We probably should. We are an aging -- I do not know about you but I'm an aging population. My daddy when I was growing up told a story that I did not get at that time. He said he had been in the city and he had seen a little boy sitting on the curb crying. And daddy sat down beside the boy, put his arm around him and said, "Little boy, what are you crying for?" And the boy looked up with red eyes and said, "Mister, I cannot do what the

big boys do." And daddy said, "What could I do? I started crying, too."

As we get older we find out that there are a lot of health needs we have and we are wealthy enough to do it. You have -- how do you say it -- cochlear implant, a technology that is only what, five, ten years old? Maybe a little earlier than that. We have now friends of ours who had hip replacements, knee replacements -- not brain replacements although a lot of people in America need them, I think. And that means we are going to spend more money on healthcare, but the trick is right now none of us think about the healthcare cost enough because we are not with third party payers and all that. It is a tragedy; it is horrible for industry. It is especially hard for old vested unionized industries. New companies are doing it quite differently. We have raised our minimum. We have raised our co-pays. We have reduced our coverage. Everybody else is doing it, too. It is a mess but it illustrates that every political action has unintended consequences.

And that is why we should focus on private individuals. When you make a private mistake -- when a company makes a private mistake it is tragic. But it is only that company and we learn from it. When government makes a mistake, we all lose and we almost never learn from it. There is a big difference between the learning capacity of a political system and a

private system and the evidence is overwhelming that private is better.

Male Voice: Have you given any study or thought to the movement of spreading corporate ownership through 401K plans, hopefully privatizing social security and that impact on corporate policies of social responsibility?

Fred L. Smith, Jr.: Yes. One of the areas that is not totally hopeless is social security and Medicare -- maybe, Medicare is hopeless, but social security -- the reason I do not think social security is totally hopeless and plans like you are suggesting might work is we have a great exemplar of a society similar to us in many ways but 10 to 20 years ahead or behind us in trends. Europe has the same problems as America, the same welfare programs, the same retirement benefits we do. Europe's demographics are much worse than ours. One of my friends says we ought to send sex manuals to Europe. They do not seem to have any ideas how to have babies anymore. European populations are declining. Italy will have no Italians in 2050. The whole of Europe will be the size of Luxembourg in population. There may be Muslims but there are not going to be the traditional Europeans there, which means that Europe is going over a demographic cliff. Their welfare programs are non-sustainable. They are all going to default on those welfare programs. They will have to say, "We cannot pay

you the benefits we promised. You are going to have to work longer. You are going to have to--" all kinds of things. And that is going to create an incredible crisis in Europe over the next 10 to 20 years. We will see that about 10 to 20 years before the same thing will happen here. If we are intelligent, if we are creative about that we will be able to use that, "There, but for the love of God go us," and use it to create a movement to reform America. Because what the European politicians of 20-30 years ago had done to the European youth of today is tragic. They have essentially told them, "If you stay in Europe, you have no future. You have no ability. The economies are dying. There is no way to pay you the welfare benefits your parents and grandparents had. We have lied to you all your lives." It is a tremendously destabilizing situation. That is why Europe is out-migrating. But it means -- that is the downside. The positive side is we have some prospects that we will be able to learn from that because -- I think one of the ads we might want to do [indiscernible] one ad might be to show a group of lemmings going off a cliff and an American lemming is standing there and saying, "You know, maybe we do not have to do this." We do not have to do it. We still have time in America to turn away from the collapse of social security. I speak as one who just got social security about three months ago. And thank you - well, not thank you. Thank

you, younger people for keeping to pay for it. I do not think most of us are going to have it. If

Male Voice: You are welcome.

Fred L. Smith, Jr.: If I have offended you, you can talk to Calvin. Calvin said one of the questions I wanted to ask him is, "How many of you think you will get social security when you retire?" I'll bet the answer is not a lot of them. I do not know the answer to that but I suspect they cannot. There is no way you can have one worker supply two retirees, which eventually it will become.

Male Voice: [Inaudible] right there. Fred said he is going to speak to Calvin this afternoon, so maybe some of us can lift up a few prayers for him. I have a few minutes afterwards. Let's thank Fred Smith.

Fred L. Smith, Jr.: Thank you, all. Our website incidentally is www.cei.org and if any of this stuff intrigued you there is a lot of material on there that discusses a broad array of issues.

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