What obligations do companies have to be socially responsibly? It's a question that prompts dramatically different answers from different quarters. A growing number of nongovernmental organizations push for ever more corporate action on issues ranging from pollution and global warming to AIDS and poverty. But investors typically want companies in which they have a stake to focus on the bottom line so they can get the best possible returns. Corporate executives often find themselves caught between these two groups. They know their companies' primary mission is to make profits, but they also feel pressured to demonstrate that their businesses have a social conscience.
THE JOURNAL REPORT

What follows is a debate on this topic among Fred Smith Jr., president and founder of the Competitive Enterprise Institute, a free-market think tank in Washington; Benjamin W. Heineman Jr., senior vice president for law and public affairs at General Electric Co., which last year published its first Citizenship Report detailing its socially responsible activities; and Ilyse Hogue, director of the global finance campaign for Rainforest Action Network, a San Francisco-based group that that aims to make the marketplace friendlier to the environment.

MEET THE PARTICIPANTS

Benjamin W. Heineman, Jr., has served as senior vice president, general counsel and secretary of GE since 1987. At year's end, he leaves GE to become a senior fellow at the Belfer Center for Science and International Affairs at Harvard University's John F. Kennedy School of Government, and a distinguished fellow at Harvard Law School. He will also join Wilmer Cutler Pickering Hale & Dorr LLP as senior counsel. Previously, Mr. Heineman was managing partner at Sidley & Austin in Washington, D.C., where he focused on Supreme Court and test-case litigation. He is a former Rhodes Scholar, was editor-in-chief of the Yale Law Journal and was a law clerk to Supreme Court Justice Potter Stewart. He has written books on British race relations and the American presidency.

Ilyse Hogue is the director of the Global Finance Campaign for Rainforest Action Network. Before joining RAN, Ms. Hogue worked with Greenpeace USA on the Ancient Forest Campaign. Participating in mass mobilizations around the world, Ms. Hogue has expertise in tactical issues, strategic analysis, media, and direct action. She holds a Master's of Science in resource ecology management from the University of Michigan and a Bachelor's of Art in environmental science from Vassar College.

Fred L. Smith, Jr., is president and founder of the Competitive Enterprise Institute, a free market public policy group established in 1984. Before founding CEI, Mr. Smith served as director of government relations for the Council for a Competitive Economy, as a senior economist for the Association of American Railroads, and spent five years as a senior policy analyst at the Environmental Protection Agency. Currently, he sits on the Institute Turgot in Belgium. Mr. Smith holds a B.S. degree in theoretical mathematics and political science from Tulane University.

The debate is moderated by Carol Hymowitz, a senior editor on management issues at *The Wall Street Journal.*

*See **highlights of reader reactions** to the debate, and **join a related discussion**.*

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MS. HYMOWITZ begins the debate: Aren't businesses that spend some of their profits on social issues, from global warming and avoiding pollution to improving education and eliminating poverty, robbing investors of their returns? And if companies should have a "social conscience," how many issues and problems are they responsible for?

MR. HEINEMAN writes: You have to answer this question in the context of a definition of corporate citizenship or corporate social responsibility (and I view the phrases as synonymous).

There are three elements of Corporate Citizenship in my view—and they are all interrelated.

1. Strong, sustained economic performance
2. Rigorous compliance with financial and legal rules
3. Ethical and other citizenship actions, beyond formal requirements, which advance a corporation's reputation and long-term health.

The question goes to the last element. But decisions on ethical or citizenship actions beyond what the laws require will turn on the specific issue and on whether, as a matter of risk-reward analysis, it advances the "enlightened self-interest of the company." For example, a company may take a citizenship action because it helps retain employees, and hire the best of a new generation, practicing non-discrimination around the globe, even though the laws in all nations may not require such a position.

The question, in candor, cannot be answered in the abstract.

MS. HOGUE writes: Ben's response is quite accurate. In fact, it was [GE Chairman and CEO] Jeff Immelt who said, "We are going to solve tough customer and global problems and make money doing it."

The question presupposes a narrow and short-term definition of "returns" as well as a stubborn adherence to an outdated model of economics, which views ecological realities as both separate from economic ones and also inhibiting. The business leaders poised to leap into the new century understand that there is opportunity in innovation. Harvard Business Review distinguished between CSR [Corporate Social Responsibility] and social innovation when Rosabeth Moss Kanter called these companies the "vanguard of a new paradigm" and recent studies have begun to conclude these companies are outperforming their peers in the marketplace.

MR. SMITH writes: Ben's comments seem reasonable but, of course, suggest that CSR is nothing more than rational profit maximization (a definition that I would find acceptable). I've found it useful to consider business operating in two worlds: the private competitive marketplace and the political bureaucratic sphere.

• In the Private World, business must, of course, be attentive to those groups whose trust and good will are essential to its economic success. These include shareholders but also employees, customers, suppliers and neighbors. All these groups have a reason to push for win/win arrangements. They own, work for, buy from, sell to or live by your plans and their good will is useful to minimize the costs of doing business. Bad relations with any or all of these groups can (and will) impact the bottom line. Thus, "community relations" can be useful as can a careful "fact-based communication" strategy to inform these groups when/if some mishap occurs. Corporate good neighbor polices are a good idea.

• However, in the political sphere—where people's opinions about the firm and, thus, the firm's vulnerability to political predation is also important to the bottom line—there is no linkage between the average citizen and the firm. The GE's of the world are abstractions—people will spend a few minutes (more likely seconds) deciding whether GE is (or is not) guilty of destroying the Hudson (the PCB issue) or whatever. In that world, the fact-based communication strategies that have proved so useful in the private world are unlikely to be useful. Indeed, studies show that attempts to explain a problem (to "educate the public") often raise the negatives of the firm ("Yes, we beat our wives but we're cutting down" isn't a very effective strategy to gain legitimization). Yet public opinion is very important—AGs and others are always seeking out pariah firms to demagogue against (GE certainly knows this) and a firm must seek legitimization.

• Unfortunately, the CSR approach seeks generally to appease its critics, to apologize for past mistakes, to bribe its opponents. CSR as enlightened self-interest, YES. CSR as appeasement, NO.

But in the world of today, CSR has become industry apologetics, not industry legitimization.

MS. HOGUE writes: We agree with Fred that corporate good neighbor policies are good practice. However, in the globalized world, multinational corporations are neighbors with people and places all over. Yet decision making tends to be very centralized and unable to absorb the multitude of very real effects that they incur. Public concern about corporate behavior has resulted from a demonstrated abuse of power as well as mounting scientific evidence regarding these real impacts. Would there be public outcry had their been no Exxon Valdez or Union Carbide Bhopal?

MR. SMITH writes: They're neighbors with people all over the world (and should be responsive to all their neighbors) but they're not neighbors to the anti-growth NGOs who seek control over corporations. If everybody is responsible to everyone, we simply observe the Tragedy of the Commons. There is a value in civilization—and that has led to the creation of specialized institutions that do some things very well. The modern firm solves one (but only one) of the major problems of mankind—the creation of wealth. That wealth then allows individuals in their various roles the opportunity to protect values they care about. Competition, of course, encourages efficiencies which move us away from some of the nasty cultural traps of the past—racism, fatalism, sexism, nepotism, etc. The firm is a civilizing influence on society—but its primary and most important role should not be sacrificed to utopian dreams.

MR. HEINEMAN writes: With respect, Fred's comments, like the initial question, suffer from being abstract. The debates about what is in a company's enlightened self-interest are not simple. Each issue requires analysis, risk-reward considerations, broad view of what is the company's interest with respect to its various stakeholders, and how those stakeholder relations (the "good neighbors") effect the overall health of the corporation.

GE doesn't apologize (we believe we are right on the Hudson and the EPA is wrong—but now we are under a legal order and so will comply fully as we do in all areas where the law requires us to do something). GE acts. Two quick examples:

1) We have banned public and private bribery all across the globe by our employees and our distributors. This is beyond what the law requires. But we believe that there are a variety of reason why bribery is bad economics and bad for the company—starting with the proposition that a culture of integrity in the company is key to long-term performance and you can't have such a culture when people are allowed to bribe. Moreover, GE has been a leader in the effort to strengthen anti-corruption laws around the globe, and was an early supporter (indeed founder) of Transparency International, the main NGO in the anticorruption area.

2) Ecomagination. Two dimensions. We are investing hundreds of millions of dollars in research to produce technologies which will reduce green house gases and other pollutants and yet be cost effective for customers. This, as Jeff Immelt has said, is good environmental policy but it stems from being good business. Green is green. We have also committed to a reduction of our own output of greenhouse gases on an absolute basis—even as we are growing—and to increase our energy efficiency by 30%. This will cost money. These internal commitments, from an environmental perspective, are also a good step, but we are doing it as a proof statement to our customers that these technologies can work in both an economic and an environmental sense.

MR. SMITH writes: CSR talks much about "sustainable development" which, in practice, means reducing the use of energy and materials. It is that reality which has led the developing world (and now even Great Britain) to recognize the foolishness of the "conserve ourselves into prosperity" nonsense of Kyoto. I wonder whether the U.S. developmental cycle which saw us cutting down everything east of the Mississippi during our developmental period, using that resource-based growth to innovate and create wealth and then return that land again to woodlands—would be viewed by Rain Forest Network as "sustainable" ?

RAN certainly seem unhappy about developing world forestry today.

MS. HOGUE writes: An abundance of resources led us to practice behavior that, given increased understanding in the way our world functions, forces a different model. The Millennium Ecosystem Assessment this past year proved conclusively that the state of the world's ecosystems are in greater peril than previously believed, resulting in lost ecosystem services that are most needed by poor people in developing countries. Forest degradation in Africa means less clean water, less farmable land, impacts that hit the poor harder than anyone. It is time to explore new models that factor in the value of these services and tap into our most precious asset, human creativity, to solve these issues in a way that is beneficial over the long term.

MR. HEINEMAN writes: Again, we need to be specific to sharpen this point and see if there are real differences, but it is certainly hard to quarrel with the general idea that corporations need to be mindful about having a growing, healthy society (not just economy) to have long-term opportunities. For example, most of us doing business in China recognize, as do China's leaders, that they must balance economic growth with better environmental practices or their society won't work and their citizens won't be healthy. GE believes we have a role to play in ensuring growth by providing good, cost-competitive environmental technologies, e.g. wind, solar, clean coal.

Rough numbers: the life expectancy of a male in Russia is about 58 years, in China about 74. One (not the only) source of disease in Russia is poor environmental protection. With rapid industrialization, China has to make sure it doesn't go the way of Russia. That is a very legitimate concern of the Chinese government, and it should be a concern of business which wants a healthy, growing and, hopefully, increasingly progressive society in China.

MR. SMITH writes: Ben need not be apologetic about the health impacts of industrialization. Human lifespans increased rapidly as people moved from the bucolic (if largely imaginary) farms of England into the Satanic mills immortalized by Dickens and company. The confusion arises because capitalism creates a middle class—a bridge between the terribly poor and the obscenely rich. That creates the social dynamic that worries (not improperly) about inequalities and so forth. Still, the point remains: wealthier is healthier. Russia replaced communism with feudal mercantilism and has suffered accordingly; China and India are moving toward market liberalism and lifespans are increasing.

Ben's view that what GE is doing is good business policy may be right—it's not clear. However, he (like most involved in the global warming alarmist fight) blurs "energy efficiency" (a good thing) and "CO2 reductions" (a goal that is far too costly until and unless some non-carbon form of energy becomes viable). GE makes wind turbines and nuclear facilities and combined gas turbines—all good things—and (in the short run) activities that might become more profitable if anti-carbon fuel policies are enacted. The temptation—and one of the major problems with GE flirting with the CSR movement—is that they will move from being justly proud of their technology advancement program to rent-seeking regulations and subsidies designed to make their programs profitable (after taxes and subsidies). The ethanol scandal is non-abstract evidence that this risk is very real, as are lobbying efforts (in the past by Enron, today by Cintergy and others) to achieve in Washington what they've failed to achieve in the market.

MS. HOGUE writes: "Corporate Social Responsibility" is a term that reflects the need for social institutions to do more to assure a world that prioritizes health and justice. When governments cannot regulate—and there are companies like Newmont Mining poisoning water supplies in PNG and Peru—citizens are left in crisis with little recourse. People are suffering while many corporations continue to profit from both unscrupulous and unsustainable behavior.

Arguing against responsibility is a sign of failed imagination. We believe in an economic system where all players have incentives to consider how their decisions affect the true wealth of their customers and stakeholders. People are desperate for a definition of wealth that expands to centralize the health of individuals and communities. The recent leadership we have seen from the business community is the best chance we have to restore confidence that corporations are made up of people who understand all of the challenges we face and are working toward real solutions.

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MS. HYMOWITZ asks: Many companies say their efforts to be socially responsible are good for the bottom line since they appeal to customers and help sell products. But should CSR only be a means to improving returns? John MacKay, chairman of Whole Foods, says his company needs to earn profits to fulfill its higher business mission of improving the health and well being of "everyone on the planet." What do you think?

MS. HOGUE writes: Increasingly, citizens and progressive businesses are recognizing the false divide that the modern day economic system is struggling to overcome. Should we have to choose between higher quarterly returns or assuring the health of our children's future? More people are saying no. There has to be a way to do both.

MR. SMITH writes: And, of course, there is. Wealthier is healthier. The idea that we "should sacrifice quarterly profits" (a straw man argument?) to "save the children" is silly. The most important public health strategy possible is to increase wealth around the world—that more than anything else will save (not our children—we're already fortunate there) but the children of Asia and Africa. Multinational corporations are the driving force toward that global wealth creation project (both as direct creators of wealth and as exemplars/role models for nascent firms in the developing world). CSR advocates denigrate this role—and would weaken it by loading on other missions. We're all in favor of these other things but the best way to advance goals is to specialize—not blur lines.

The Mackay/T.J. Rogers "debate" on this topic in the recent Reason magazine edition (together with an overview by Milton Friedman) was confused as you note here. Mackay realizes (as he should) that there are groups of parties whose "good feelings" (trust which allows lower transaction costs and thus increased efficiencies) extend beyond the shareholder. But then Mackay throws the door open to the whole world—arguing that if the shareholders don't mind and it makes him and the other managers "happy"—why not? And his point is well taken—why should anyone but the owners (and, of course, the potential owners - takeover firms, hedge fund operators, institutional investors) object to this strategy.

My problem is that there is no evidence that "making nice" with those antagonistic to economic and technological change has any positive affect on the bottom line (we co-sponsored a paper on that topic by Art Laffer) and there is considerable evidence that the Pharisee strategy ("Thank you God, that I'm not as bad as those other sinners") merely makes one a target. Gary Hart's "If you can find anything bad about me, print it" is not a wise strategy for any profit-seeking firm. Note Ford and BP—two CSR-friendly firms—have not escaped attack.

But, more importantly, this "We're a good firm, go after our competitors" [position] runs two other risks. One is the typical rent-seeking problem of capitalism: Firms spending time and resources seeking political rules that (relatively) cripple their competitors. Firms that do this may fail to focus on their core management responsibilities; Enron's energy-trading skills led it to favor Kyoto-style emission trading laws and contributed to its failure to police its internal decisions. Second, is the fact that a firm cannot "immunize" itself alone—political intervention is a sector is generally sector-wide (the Exxon Valdez disaster led to affecting the whole industry, not just Exxon). Industry must find ways to legitimize itself in a skeptical political world and neither the Pharisee strategy nor the other variants (the Mafioso strategy, "Yes, we're terrible but we do fund novenas" or the Captain Hook strategy "Feed the crocodile your leg and it's more likely to become vegetarian") have any demonstrated value.

MR. HEINEMAN writes: The concept of "enlightened self-interest" implies a longer term perspective and not an immediate focus on the next quarter bottom-line. I believe strongly that "reputation", like "brand," has significant economic value to the enterprise, even though it cannot be quantified with the precision of cash flow or EBITDA. Companies, acting out of enlightened self-interest, will take actions that are important but not necessarily quantifiable in the near term.

Another example: Almost 10 years ago we started an "ethical" supply chain initiative in developing markets. We looked not only at the financial and technical capabilities of the supplier but their positions and performance on a variety of "value" issues—like did they have compliance systems, what was their compliance record, what were their practices with respect to child and prison labor, what kinds of environmental policies did they have.

Once again, this initiative is susceptible to an "ethical" interpretation—we were trying to do the right thing in developing countries. But, it also has a strong business correlation. Many developing countries have laws that cover most issues of concern in the developed countries, but they are not enforced. We were often asking about compliance with a supplier country's own laws. Moreover, there is a correlation, in our view, between a supplier's competence in having technical systems and processes that are effective and having systems and processes on compliance and values that benefit their employees. Our good suppliers have the latter type of systems and processes—and many other suppliers have instituted them at our request because they want to be part of our supply chain.

But, our expenditures in qualifying, and then requalifying, suppliers does not have an immediate, measurable return. But we strongly believe that in the mid to long term this is good business, not just good practice.

MR. SMITH writes: I think, I agree with this line of argument. The firm is an incredibly important mechanism for creating wealth over time—to do that, it must deal with the inherently subjective future. Buggy whip manufacturers, whalers and steam locomotive manufacturers got better and better at doing what they did—until it became irrelevant and they disappeared. The critical challenge for the surviving firm is to find ways to do (in retrospect, terribly inefficiently) things that have never been done before. That is why the market is (so far) the only sustainable institution that has evolved.

MR. HEINEMAN writes: Behind the citizenship debate is the question of when an issue is so important that we shouldn't rely on voluntary actions by corporations, but instead pass laws so that all enterprises are obligated to protect or create a social good. I think the question of where to draw the line between voluntary action in the enlightened self-interest of the company, and when the cost is too great and should be born by all competitors, is a partial answer to Fred's concern.

Indeed, law and regulation, ironically, can be market enhancing because then all regulated entities face the same obligations under the law and the smartest [corporations] will find a way to comply completely with imagination and less cost.

So, behind this citizenship debate is the question of when should we legislate. Example: U.S. environmental laws have led to cleaning up air, water and toxic waste. We can debate whether those laws are always sound or sound in all respects, but that effort was much too costly to be undertaken as a matter of citizenship. The fundamental duty had to be imposed by society on all actors to keep the playing field level and competitive.

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MS. HYMOWITZ asks: What do you think of GE's Ecomagination strategy, Fred? And when shouldn't companies be responsible for taking voluntary action in response to, say, an environmental problem or disaster and rely on the government to foot the bill?

MR. SMITH writes: I haven't studied the Ecomagination program but I certainly liked the old assertive communication strategy that showed the many benefits that GE had brought the world. That "We bring good things to life" (I think) was wonderful. It demonstrated that the core purpose of GE advanced the varied values of our heterogeneous society - making us freer, more secure and fairer. The Ecomagination seems more to buy into there is "good" and "bad" technology and GE is on the side of the angels. The case for reducing greenhouse gases is weak, the prospects for actually achieving anything meaningful along that path (given the hopes of economic development throughout the world and the limited availability of non-carbon energy sources) is zero; yet, GE seems willing to endorse that silliness.

GE (and Ben, I guess) get treated better at NYC cocktail parties and they get an occasional back-handed complement in the PC-literature, but does this diversion into secondary justifications for the great work that GE has done do anything more than that? GE may view all this as an indirect way of getting the nuclear option back in play (an outcome I'd like to see, too) but I don't see any evidence that this approach does anything other than wet the appetite of the anti-globalists.

It's a shame, in the great history of corporate communications, how industry responded to the early muckraker attacks, GE comes across as one of the clearest thinkers, the most effective at "legitimizing" their operations. I wish they would re-visit their own history. DuPont abandoned "Better Living through chemistry" because of focus groups. I fear that GE may have followed the same path.

In my view, a better concept of CSR would be for businesses to work together to promote institutions that would allow the private sector to play a more responsible role. As an example, the oil industry works cooperatively with landowners and others to find and produce petroleum efficiently. That desirable outcome is made possible only because the oil resource, like other underground mineral resources, has become private property. In contrast, underground water (aquifers) is at risk everywhere - it is more vulnerable to pollution (the equivalent in the oil field is pressure loss and illegal drilling), it cannot be regrouped into more efficiently managed units (the "unitization process" that has made oil field management so productive) and water is everywhere becoming an increasingly scarce resource—unlike oil.

One clear example of an industry acting responsibly was the work of the freight rail industry to seek deregulation, the elimination of the ICC. Asking to be thrown into the competitive world is rare in the modern business world—in a truly socially responsible world it would be much more common.

MR. HEINEMAN writes: Fred, when Jeff Immelt announced this initiative he made absolutely clear it was about business and increasing profits. Our short form summary was, as I mentioned a moment ago, "green is green."

The whole initiative is market driven. We are not asking for government regulation. We believe our customers want this technology.

Whatever the scientific details of global warming/greenhouse gases, there is a sense among many GE customers—i.e. utilities—that it is a real problem and, if we can provide cost competitive technologies that don't impose greater costs on the utilities themselves or on the ratepayers, then these are products they want. As do many of their end-users. And, if we can do this, we believe, as Jeff said, it gives us a competitive advantage in the market place. We have committed to increase our R&D budget for these products from $750 million per year to $1.5 billion per year. We don't make an investment like that unless we believe it is good business.

We have also been straightforward that the future technologies which can address this problem are, of course, solar, wind, clean goal, gas, but also nuclear. The energy approach of the future is going have a mix of technologies. Our goal is to be active in all of them, including nuclear.

Finally, as I also mentioned earlier, we have committed to a reduction of our own greenhouse gases and to improve our energy efficiency in order to demonstrate to our customers that it can be done with our technologies. These actions, too, have a strong commercial basis.

MS. HOGUE writes: The reason that corporate social responsibility has become commonplace is because the issues that are examined in the context of the policies resonate with the core values of shareholders, stakeholders, employees, CEOs. We have recognized that this moral vacuum needs to be filled in the marketplace and now these values needs to translate into real action on the part of companies.

Tiffany's has not only looked at their own supply chain, knowing that being associated with rogue suppliers is not attractive to their customers but has also advocated for industrials in gold mining. Similarly, Citigroup, Bank of America, J.P. Morgan Chase, and most recently Goldman Sachs have institutionalized policies that recognize the value of intact ecosystems to future economic and environmental health.

MR. SMITH writes: For the record—the corporate communication reference I referred to in my last posting was Creating the Corporate Soul by Roland Marchand. It tells the story of how from roughly 1880 to 1940—industry responded to earlier anti-business attacks (the Robber Baron attacks). And that effort to legitimize—to "create the corporate soul"—saw a business community viewed as Merchants of Death after WWI and viewed as Arsenals of Democracy after WWII.

Industry then disarmed and went home and have yet to find a meaningful response to the modern Muckraker attacks by the anti-global community. CSR is a poorly thought through attempt to reduce that vulnerability.

An improvement in energy efficiency is clearly a worthwhile goal for GE and the world. A commitment to reduce your greenhouse gas emissions may make sense for GE—given a different mix of production facilities, a slower growth rate, or a shift to services rather than manufacturing—it makes no sense for the world. The world must use vastly more energy if our hopes of alleviating the poverty of the world is to have any chance of success. We are many decades away from being able to achieve that level of wealth increase without increasing greenhouse gases.

GE, in this second pledge, places itself on the side of those desiring to preserve the indigenous culture of the peoples of the world—that is, poverty.

MS. HOGUE writes: There is almost unanimous scientific consensus that the climate is changing. The atmosphere today contains about one third more CO2 than before the onset of industrialization, the highest, in fact, in the last 650,000 years. Current models predict the extinction or endangerment of 15% to 37% of plant and animal species by 2050 indicating the largest mass extinction since the disappearance of the dinosaurs. Changes in the climate and in weather patterns are expected in every region of the U.S. affecting everything from human health to agriculture.

Companies that anticipate this change and work to prevent more will have the best models for moving forward. This is already being demonstrated in rewards in the marketplace.

Last year, the Economist said "Companies with their eye on their triple bottom line outperform their less fastidious peers on the stock market."

MR. SMITH writes: This is silly. The scientific debate has moved decisively away from the alarmist view. But see our Web site for extensive writing on this topic.

MS. HOGUE writes: Skeptics who continue to hold on to the flat-Earth view that climate change is a myth are clearly in the scientific minority. A 2004 University of California San Diego study concluded that almost all scientists concur that we are experiencing atmospheric warming and as a result of human activity. Just last month, Tony Blair weighed in saying "Evidence on climate change is getting stronger, and not weaker...even those that have such doubts can see that there are real issues to do with energy security, energy supply, the diversity of energy sources. Not just as a result of Kyoto, but also as a result of concerns that people have..., there is an increasing emphasis amongst the private sector and business on how they come into this climate change dialogue and how they are part of it. And let's be very clear about this, the solution will come in the end, in part at least, through the private sector developing the technology and the science able to make a difference."

Given that voluntary private sector initiatives must be accompanied by strong regulatory moves, best practice is currently embodied in financial sector policies that recognize public policy as a tool to level the paying field. Executives and politicians who refuse to acknowledge climate change are being encircled by the growing consensus across the political spectrum that our destabilized atmosphere is one of the biggest threats to humankind. The Pentagon reported last year on climate change: "[Climate change] should be viewed as a serious threat to stability and should be elevated beyond a scientific debate to a U.S. national security concern." The report went on to warn of a domino effect in which unchecked climate destabilization would result in widespread famine, drought, and even nuclear conflict.

Climate change is not just abstract theory anymore. It is three Category 5 hurricanes within one month this summer, we've seen the first-ever hurricane in the South Atlantic; $210 billion in damages in the past two years; and millions left homeless. Climate change is 35,000 dead in the European heat wave, the Amazon forest experiencing the worst drought in the last 40 years, and conclusive evidence that we are in the largest mass extinction since the die-off of the dinosaurs. A recent round up of climate studies by Naomi Oreske at UCSD clearly demonstrated that humans are warming the planet and reductions of ghg emissions are key to staving off effects. We have moved from computer models into observable phenomena. CEI's promotion of bad science funded by top polluters Exxon Mobil – those with the most to lose from not making a transition clean energy economy—does nothing to dispute these facts.

And many industrial sectors understand that we cannot endure these types of environmental and sociological shifts without there being economic ramifications. Swiss Re calculates that the insurance industry paid out more in weather related claims in the '90s than any other decade on record. Climate change is shaken the artificial wall that has long stood in people's minds between the economy and ecology.

Given that it is clearly time to act, there is no surprise that concerned citizens expect business to step up along side government, or ahead of government, when government won't act. A healthy marketplace is one that has consumer confidence and confidence is achieved when issues are addressed through innovative leadership and systems become dynamic enough to embrace new opportunities. Estimates predict there will be 10 times more jobs in energy efficiency and renewables than in the fossil fuel sectors.

Corporate policies need to be judged in two different ways; vis a vis their goals compared to other actions being taken as well as what we need to see in the world in order to confront the magnitude of issues like climate destabilization, ecosystem degradation, and poverty alleviation. GE's strong statements on the need to deal with climate are encouraging and Immelt's leadership should be commended. Still, the aspirations outlined by the Ecomagination strategies fall short of best scientific projections of what is needed to avert both economic and ecological crisis in the near future. All existing corporate policies fall short of best science, but at least begin to chart a new economic pathway that (may prompt) solutions.

And companies are doing well by doing good. Just last week, DuPont proudly trumpeted its achievement at topping Business Week's "Top Green Companies" list, on top of saving more than $2 billion by reducing energy consumption 7% below 1990 levels—including at least $10 million per year by using renewable resources.

CEOs, their shareholders, their customers, and their neighbors understand that real wealth comes from creating a world that is healthy and just. Climate changes, ecosystems degradation, and all of the associate human ills have sent a clear wake up call to the marketplace and stimulated innovation of a new economic paradigm – one that reconciles economic imperatives with ecological realities. The Citigroups, Goldman Sachs, Tiffany's, Body Shops of the world will benefit from being on the right side of history.

MR. HEINEMAN writes: The degree to which the technologies solve the problem will be the degree to which customers buy them, if we can take them to the proper stage of development.

Where do you stand on nuclear? Certainly, [this is] a "clean" technology in a global warming sense. Fred, if you are pro-nuclear, what do you think government should do?

Also, one of the great technologies for the future is clean coal, but that requires significant R&D investment to make it competitive, which is what GE is undertaking. To go back to China, my numbers aren't exact, but even if they add all the nuclear plants they have planned over the next 20 years, nuclear will still only provide about 10% of their energy needs.

Coal gasification may well be the answer for China. That is why we are spending significant investment dollars on the technology. If our bet is right, and we are first and best, there will be a tremendous market in China—and elsewhere in the world.

MR. SMITH writes: The government once "loved" nuclear power and showered it with "gifts"—abrogating the role of private insurance, providing subsidies. And then when public support waned, it became a pariah industry. There are no free subsidies. The CSR approach seems not to understand the value of "neutrality"—don't subsidize but don't penalize alternatives - let them survive or fail on their merits.

There's much to say about Price Anderson, nuclear waste repositories and so forth but not here. Yes, I'm for nuclear having the opportunity to prove its merits. I think it would do well.

Clean coal technology is a good idea, but I fear that the massive support in the energy bill will come at a very heavy price. Coal is a very economical fuel—all nations (and peoples) seek cleaner air. GE's clean coal technology (in my view) will do far better if government steps back.

MS. HOGUE writes: The world will have to grapple with energy efficiency and energy consumption in a real way if we are to achieve goals of poverty alleviation and ecologically sound energy sources. We appreciate the bank policies that create incentives for energy efficient mortgages allowing customers to take advantage of the cost savings associated with efficiency. Yet we have to be honest that the U.S. consuming 25% of the world's energy while housing only 5% of the world's population is not valid model for replication. These resources are finite.

Even Exxon Mobil recognizes that peak oil is a reality; oil will run out. It is not "if," but "how" we will transition to a renewable energy economy. This economy will necessarily embrace efficiency models as well as a level playing field that enables real competition for all energy sources, rather than favoring the fossil fuel industry to the tune of billions a year.

What is exciting are the opportunities offered by this transition. Leading thinkers, like writer Ross Gelbspan and economist Eban Goodstein, have identified that with anticipation and planning; the coming energy transition will create new jobs and stimulate the economy. Perhaps more importantly, renewable energy sources can put control of energy sources back in the hands of national and local populations.

It is time to smash the myth that fossil-fuel extraction benefits local populations. MNCs, like Shell, Chevron, Exxon have been operating in resource rich (oil, timber, minerals) countries for decades, yet large scale extraction projects are strongly linked to higher poverty rates and increasing national debt that robs key resources better used for education, health care, and building local economies. Even the World Bank's Extractive Industry Review recommended no more funding for fossil-fuel projects because it runs directly counter to the goals of poverty alleviation. Look at Ecuador, look at Nigeria, look at the Congo.

MR. SMITH writes: As always in these discussions, the issue of transition is important but whether we should rely on politicians to make these u-turns or consumers and suppliers is the better issue. Government has already wasted vast sums in seeking energy alternatives, in seeking "energy independence." I was at EPA when the Synfuels programs began to absorb its billions of taxpayer dollars—years later it produced a few barrels of oil.

GE and Exxon Mobil, for that matter, invest large sums to ensure that they'll be prepared regardless of which outcome emerges. That is intelligent but they need not disparage the existing technologies that are producing great good for mankind now.

I once joked that the thoughtful "responsible citizens" of California had elected to cease their reliance on the horrible energy sources of hydropower, fossil fuel and nuclear—all of which were terribly environmentally destructive. California, they decided, would rely on electricity instead. If American firms are forced into economic production and distribution and marketing programs that will please RAN, NOW, the AFL-CIO or Amnesty International, there won't be much economy left.

MR. HEINEMAN writes: GE, of all companies, is not disparaging existing technologies, which we make or use. We are simply saying that we should seek better technologies for efficient use of resources (of whatever type) with less adverse environmental impact.

Even in wind power, for example, we are trying to harness our gas turbine and aircraft engine technologies (blades that go around to produce power) and flow them down into our wind turbines.

This is all about innovation that will have market acceptance while cost-effectively addressing—indeed because of addressing—efficiency and pollution issues.

MS. HOGUE writes: Economic potential is only inhibited by the creativity of those involved. The artificial dichotomy of jobs vs. environment or healthy economies vs. healthy ecosystem is one that is being rejected by businesses around the globe. From Alcan to PLC to Pricewaterhouse Coopers, business leaders recognize the way of the future are economic models based on restoration and long-term health of communities and the land on which they live. Those companies that do not embrace this new paradigm are paying the price in bad publicity (i.e. Newmont mining in the New York Times) and low consumer confidence.

To speak to Fred's accusation of alternative energies costing billions of taxpayer dollars, let's not forget that fossil fuels receive billions of dollars annually in taxpayer subsidies each year.

MR. SMITH writes: As civilization advanced from closed autarkic communities to the (relatively) open economies of today, it was necessary to go from the "deal with your own kind, marry your own kind" nativism of the past to the "treat a stranger as a friend" anonymous market transactions of today. As Adam Smith noted, we do not have to like our butcher (or he us) to enjoy the benefits of trade. The desire to feel good about the lineage of every transaction—was this coffee grown by badly treated workers in a polluted environment where governments oppress their citizens—would move the world back toward the poverty of the past.

The market reduces transactions costs by treating a product as what it is—a price and a quality—the means by which it was produced and processed are irrelevant. This is a basic premise of free trade - a rule of the WTO (the PPM rule). The CSR movement would move us back toward the "deal only with PC-family members" and would lead to massive economic losses.

Trade—and globalization generally—do not directly address all the great values of our day. But the wealth creation effect of globalization makes it possible to have a world that is cleaner, fairer, healthier and less racist/sexist. That's not a virtue to be discarded to appeal to utopians.

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MS. HYMOWITZ asks: Beyond environmental measures and energy policy, what other issues do you support companies getting involved in or oppose--and do you have examples you can cite?

MR. HEINEMAN writes: Take it by types of stakeholders. Some examples

1) GE Communities. We provide mentoring to increase the number of students at inner city schools. We have special scholarship programs to increase the number of women and minorities who go onto graduate work in science and engineering. We have environmental practices that go beyond what the law requires. We build green field plants around the world to global standards, not local legal standards
2) GE Employees. We continue to drive a diversity agenda that is a business necessity for a transnational company doing business in a multi-cultural world. We are a world leader—perhaps the world leader—in occupational health and safety, which is good for our employees and good for the bottom line.
3) GE Shareholders. We seek to have world class governance, portfolio simplification and transparency and real performance options for Jeff Immelt, as well as Deferred Stock Units for our directors (which don't vest until a year after a director leaves the Board).

4) GE Creditors. We will maintain our Triple AAA rating as a highest priority, and have altered the mix of short term and long term debt.
5) GE Customers/Suppliers. Ecomagination; our six sigma "at the customer, for the customer" initiative, which seeks to work with customers to increase their productivity and help us provide them with more cost-efficient goods and services; and ethical sourcing.
6) Government. Working with regulators in GE "work-outs" to improve efficiency and effectiveness of regulation. Working with the Chinese government to host environmental, health and safety as well as compliance forums to provide overall education and training for local companies on systems and processes that we and other companies use.

MR. SMITH writes: Pretty much my list, but I would avoid the term "Stakeholders." Still, as I noted, these groups have a linkage, a nexus, to the firm and can be expected to listen to fact-based communications and to seek a win/win solution. That situation disappears when one moves to the general citizen and the NGO community, key elements of which have an animus against modernity, a romantic resentment of the corporation and anonymous trade. See Hayek's The Atavism of Socialism.

MS. HOGUE writes: To the extent that corporate actions affect those around them, they (companies) must address them. Whether this is Nike's use of sweat shop labor or Chevron Texaco's refusal to clean up its toxic waste in Ecuador, companies should clean up their messes.

When we look at the role of large financial institutions, they affect issues will beyond those RAN has most experience with. We have seen their customers balk at predatory lending practices in the last five years as well as exorbitant CEO compensation. There is a clear demand for more equity in the marketplace. Given the move of the G-8 this summer to cancel debt, we expect that commercial debt must be addressed next. The tie between debt and poverty and environmental degradation is inarguable and to have solutions that work requires a comprehensive and sophisticated approach.

MR. SMITH writes: Well, we're getting into general criticisms of capitalism here. Note banks: They're simultaneously accused of "Redlining" (denying credit to deserving groups) and Predatory Lending (forcing unneeded debt on that same deserving community). Not an easy tightrope to walk.

The "Sweat Shop" argument is that raised from the initial stages of the Industrial Revolution, and stems from an elitist desire that no one should face painful choices. But, unfortunately, many in the world face horrible choices - terrible dead end labor on low productivity farms or breakthrough opportunities in entry level "sweat shops." I worked in a shipyard as a high-school student with lots of yucky stuff for a few dollars an hour. But I learned a lot about working and it has served me well all my life.

The world cannot be made clean or fair or healthy but it can be made cleaner, fairer and healthier and that is what economic development has made possible. That real achievement must not be jeopardized by utopian elitists irate that everyone isn't living as well as they are.

MR. HEINEMAN writes: The proper approach to development involves far more than debt cancellation. Societies must develop institutional infrastructure, not just economic infrastructure, that will allow investment, growth, rule of law, a meaningful balance between equity and efficiency. That is a task far beyond the capabilities or proper mission of corporations.

Corporations best role is to invest and bring world-class best practices on a variety of subjects, including quality of facilities and treatment of employees and quality of supply chain standards.

MR. SMITH writes: And, indeed, debt cancellation can weaken the one good result of waste, fraud and abuse (I'm from Louisiana, America's banana republic, although sadly short of bananas) that we may get some level of reform. Politicians will do well. It is the people (almost always who've shared in the burden of these poorly construed loans) who are then losers when capital flows disappear.

And, Ben (and the World Bank, for that matter) is right. Most of the poverty in the world is home-grown. Cultural patterns (populist policies, racism, tribalism, fatalism, corruption) and political economic impediments (over-taxation, anti-competitive regulations, state enterprises, etc) account for most of the problems of the Developing World. That is why foreign direct investment (FDI) is so superior to "Foreign Aid." The private investor is far more likely to invest in projects that actually improve the plight of the poor. Political aid helps politicians. As the late Peter Bauer argued: Foreign aid is the program of taxing the poor in the rich world to help the rich in the poor world.

MS. HOGUE writes: The growing consensus among development experts across civil society and academia reflects what local communities have been arguing for generations: large scale resource extraction projects, particularly of oil are strongly linked to higher poverty rates among the very people who should be benefiting the most from this so-called development.

But fundamentally, the changes in the marketplace are reflecting a deeper shift that expands the definition of wealth to include healthy communities and a world that can sustain diversity for future generations.

MR. SMITH writes: Companies should seek to alert the peoples of the developing world to the risks they face if the CSR model is allowed to suppress economic development around the world. Business has restricted its defenses to the narrow range of "we sell things and people buy them, so we must be doing good." But, of course, drug dealers and sex services also provide services that "make money." The MNCs of the world have done far more than the World Bank, the IMF and the foreign aid programs of the world to free billions of people from traditional poverty.

There is much more that the "responsible" corporation could do—but they don't talk about this. They allow anti-technology and anti-growth NGOs to act as the vanguard of the global proletariat. This is shortsighted and irresponsible. On a range of issues from human rights to workplace safety to worker mobility to the modern corporation makes the world a "better" place. That achievement will not, of course, satisfy the NGOs (and perhaps it should not) but it is an incredible moral achievement and it should receive vastly more attention.

MS. HOGUE writes: In fact, the most recent study on CSR has demonstrated absolutely that behaving well with regard to environmental concerns is rewarded in the marketplace: In 85% of the total number of studies assessed, we found a positive correlation between environmental governance and or events and financial performance, [according to the] Corporate Environmental Governance, October 2004 Environmental Agency and Innovest.

MR. SMITH writes: Sorry, but this is wrong.

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MS. HYMOWITZ asks: What would you advise CEOs of global companies who faces ever more global competition yet at the same time more global upheaval, including natural disasters and terrorism? Where does corporate social responsibility fit into that complicated equation?

MR. HEINEMAN writes: Business leaders have, from time immemorial, had to balance a series of complex considerations.

The goal of 21st-century capitalism must be "high performance with high integrity." That is accomplished through the three interrelated elements of corporate citizenship:

• Strong sustained economic performance

• Rigorous financial and legal compliance

• Ethical and citizenship actions in GE's enlightened self-interests.

The debate is advanced by addressing specific issues affecting sets of stakeholders and determining whether no action is needed, whether voluntary action is appropriate (despite cost) to advance the long-term health of the enterprise or whether the problem is important enough (take education, for example) that the society, through governmental action (at whatever appropriate level) should be the primary means of addressing that issue.

MR. SMITH writes: The responsible company should recognize that its comparable advantage (and its contribution to society) lies in its ability to work within the legal and cultural structure of the societies in which it operates to create wealth. This is an incredible achievement—one that has been achieved to any substantial degree only in the last few centuries in about one-third of the world. First, they should ensure that this achievement is understood—that the role of the modern corporation is viewed as legitimate. It is not today and I blame that on the passivity and apologetics of the CSR style firms.

But, more importantly firms should recognize that they share responsibility for the cultural and economic-political rules, also. They should align themselves with others to move toward the gradual evolution of institutions that permit private interest to be more aligned to the public interest. This means (as Ben suggested earlier) that companies seek meritocracy (something that American firms have been doing for a very long time - with great benefits to the class-focused societies of even many European nations). But, it also means working within the political process to make the case directly and with free market groups that an expanded market would yield even greater social value. Over-regulation is doing great harm to our ability to address poverty, disease, resource scarcity, ignorance and many other problems that supposedly NGOs view as concerns. Most NGO "solutions" would make the world worse. Corporations should not endorse them, obviously (although they sadly do), but companies should themselves push for solution that would expand the competitive marketplace, expand the creative disciplines of economic liberty.

MS. HOGUE writes: The increasing voice of NGOs is in direct response to the inability of most stakeholders and customers to access decision makers at corporations, even though the decisions can affect people universally in a global world. RAN and other NGOs have tapped a nerve and obtain our strength from the many people who believe in the idea of a just marketplace. NGOs catalyze conversations that allow for the best brains in science, business, government and civil society to work together toward creative solutions.

After Goldman Sachs announced its policy, we received phone calls from employees and shareholders thanking us for our role in precipitating the change in their corporate practice. People have values that are unquantifiable on a balance sheet. CEOs that recognize these, whether issues of security or justice, inspire confidence that they are among the leaders we need in an uncertain and rapidly changing world.

Sergey Brin, the co-founder of Google puts it in an amusing way: "Don't be Evil." This is actually written into the company's charter, and Google isn't exactly a feel-good utopian non-profit.

Granted, this might be a bit vague, but it is true that many of the most innovative and successful companies are often those who attempt to do well by doing good. Home Depot has long been a highly profitable industry leader, one that is also leading the field in developing responsible wood purchasing policies. Citigroup is one of the world's most profitable corporations, while simultaneously showing great leadership on many social and environmental issues.

Today's CEOs have a difficult job. As Thomas Friedman writes, the world has become more flat, allowing for greater competition of goods, services, and ideas. To be successful, chief executives must not take the most narrow of views when it comes to their responsibility. The business axiom, "the customer is always right" has never been more true, and today the "customer" includes consumers, employees, analysts, shareholders and many others, many of whom strongly support rigorous environmental protection, and strong measures to reduce corruption, increase transparency, and uphold labor and environmental rights. The smart CEO today will play an active role in aligning her/his corporation with these modern public values.