

*Notes for An Address*

*to*

*The Canadian Club  
of Toronto*

*Corporate Success,  
Social Failure, Corporate Credibility*

---

By  
Buzz Hargrove, President  
CAW-Canada

February 23, 1998

Royal York Hotel  
Imperial Room  
Toronto, Ontario



## CORPORATE SUCCESS, SOCIAL FAILURE, CORPORATE CREDIBILITY

---

In the January, 1998 issue of our “national newspaper’s” business magazine, the lead editorial began with the assertion that “*Rarely have so many had so much to feel so good about*”. As if to quickly pre-empt the slightest debate or dissension rearing its uncomfortable head, this was followed by an article headlined “*Get over it*”. Apparently any complaints couldn’t possibly have anything to do with the real world, but were rooted in our national character, which was conveniently defined as “*pessimistic and wary*” and “*incapable of rolling with the good times*”.

This glib response to what is actually going on in our country reminded me of a more honest statement made by a Brazilian general in the fifties. Asked how things were going, he replied: “the economy is doing great but, unfortunately, the people in it aren’t”.

For the corporate sector, these are indeed heady times, the culmination of economic and political victories won over the past two decades. The stock market graphically highlights and symbolizes these triumphs. While family incomes stagnated over the past two decades, stock markets accelerated at rates no one ever imagined were sustainable. Over the twenty year period since 1977, during which the incidence of dual earners increased by 23% and family hours of work increased significantly, real median family income went up, in total, by all of  $\frac{2}{3}$  of 1%. Meanwhile, someone with the

money to invest in the TSE 300 could have sat back with a nice glass of wine and watched his investment over that same period - on average and after inflation - more than *quadruple!*

A few commentators, not at all typical but nevertheless still part of or tied to the business establishment, have recently expressed concern over both the ideological and inegalitarian excesses inherent in the business-led restructuring.

Billionaire George Soros put this into a post Cold-War context: in a highly-publicized article in the Atlantic Monthly:

*"I now fear that the untrammelled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The main enemy of the open society, I believe, is no longer the communist but the capitalist threat."* (February, 1997).

Peter Drucker, America's most well-known business guru, felt compelled to assert that:

*"We are learning very fast that the belief that a free market is all it takes to have a functioning society - or even a functioning economy - is pure delusion."* (Quoted in Wired Magazine, October, 1996).

The sponsors of the 1996 "World Economic Forum", addressing a who's who of international corporate and political leaders, opened with a self-interested warning that:

*"A mounting backlash...is threatening [to disrupt] economic activity and social stability in many countries...This can easily turn into revolt...Public opinion will no longer be satisfied with articles of faith about the virtues and benefits of the global economy. They want action..."* (Quoted in the International Herald Tribune, February 1, 1996).

At the most recent World Economic Forum, a group which the Financial Times dubbed a “*self-styled ‘revolutionary group’ of young business leaders*” warned that “*Europe’s socio-economic system is failing the populace*” (February 1, 1998). And Business Week, editorializing on the crisis in Asia, warned that:

*“So far an Asian backlash has targeted corrupt politicians and crony capitalists. But angry nationalism is growing and the backlash can easily shift to anti-Americanism or even anti-capitalism (January 26, 1998).*

Here in Canada, David Olive, at that time editor of the Globe and Mail’s Report on Business but speaking in a very non “Globe-and-Mail way”, bluntly asserted that:

*“...there may be a CEO or two under the mistaken impression that only politicians hold office at the pleasure of the community. A reminder: capitalism exists by popular consent.. the mindless repetition of efficiency mantras and ...‘enhanced shareholder values’ will not prevail should the public decide that the economic system no longer operates in their interest.” (April, 1996).*

The question being raised in these comments, the question that will be the central political question of our time, is: *What are the implications of the corporate sector’s triumphs?* The emerging issue is where the corporate agenda - now largely implemented - is taking us. Will it be challenged in any sustained way? What will be the basis of that challenge? How deep and far might such a challenge go?

To some the economic parallel is to the period leading up to the Great Depression, when economic imbalances threatened the collapse of the system. Our times, like those, are characterized by an extreme polarization of incomes; exhaustion of savings and growth of consumer debt; excess capacity in a wide range of industries; over-valuation of

stock markets; national austerity programs; international financial instability and competitive devaluations; and the self-defeating and contradictory attempts of each country trying to solve its own “domestic” problems through exports to others trying to do the same thing.

There is, though, another parallel to that earlier period to be raised - one obviously linked to the economy but which goes on to question, as happened in the thirties, *the corporate elite’s credibility, competency, and leadership role in our society.*

In the 1920's that elite was - like today - riding very high. Auto and electronics were emerging as mass production sectors full of new possibilities, and the “captains of industry” were national heroes. When the Depression hit, people turned to these same heroes - because of their past leadership and experience - to be their saviours through the difficult times.

But when the economy worsened, and the advice and leadership of the captains of industry proved not just ineffective but harmful, people quite suddenly and massively turned against them. After all, if the captains of industry were given the credit for the good times, they should also be held responsible for the bad. As Rubens Ricupero, Secretary-General of the United Nations Committee on Trade and Development (UNCTAD) recently noted, *“the 1920s and 1930s provide a stark, and disturbing, reminder of just how quickly faith in markets and economic openness can be overwhelmed by political events”.* (Quoted in the Wall Street Journal, Sept 16, 1997).

The economic and social crisis that subsequently emerged within capitalism was ultimately alleviated by a set of policies and structures which became known as “the welfare state”. Ironically - or perhaps predictably - it is the corporate-led dismantling of that *previous* solution to a fundamental social crisis, which is now recreating the conditions for a *new* crisis.

The welfare state had emerged out of series of linked historical events: the loss of credibility of capitalists and capitalist solutions during the thirties; the determination to limit the radical movements that were the response; the War and the strong bias for equality whenever people fight and sacrifice for democratic principles; and the post-War competition with the Soviet Union for global moral leadership.

What that post-War period represented was a form of “class compromise” or a “social contract” to legitimate and stabilize capitalism. Social conflicts - many of them very significant - continued, but at the end of the day there was an acceptance that while corporations would run the economy, restructure it, and increase trading relationships, the general population would have jobs, feel protected through economic change, and share in the benefits achieved. Whatever hardships working class families had, there was an assumption of uninterrupted generational progress - sons and daughters would end up better off than their parents.

In the quarter century after the War, Canadian workers saw unemployment fall and stay relatively low, working class families achieved steady and dramatic increases in their standard of living, a progressive coalition lobbied for and won new social programs

like medicare and the Canada Pension Plan, and we saw inequalities eased and a measure of security generalized.

By the late sixties however, the post-War “consensus” was showing its first signs of unraveling. Two things in particular had changed: Europe and Japan had reconstructed their economies and become serious competitors globally, and at home, the working class - buoyed by secure times and social programs that provided entitlements independent of the market - had become more confident and less amenable to corporate and market discipline.

With profits under pressure and workers resisting discipline, the corporate sector found the welfare state was no longer affordable nor acceptable. Radical change was necessary. By the mid-seventies, the Business Council on National Issues was established in Canada, mimicking a similar organization in the United States. Corporate Canada was organizing itself and mobilizing to change ingrained expectations, structures, and the direction of Canadian society. Over the next two decades, business was remarkably successful in both political achievements and the limited reaction against them.

Before this assault began, those of us on the other side had assumed that social programs were untouchable - the relevant debate being only about how they could be expanded and deepened to include new rights. Few of us would have believed that steady double-digit unemployment rates could be sustained without riots in the street, or that the gradual but consistent move to greater social equality could be reversed.

That the corporations were so effective reflected not just their resources and power, but the real gains people had previously made within capitalism. Whatever frustration and resistance there was to the new pressures for cutbacks and restraint, people ultimately hoped that this was temporary, and they reluctantly accepted the austerity as part of hanging on to the greater part of what they already had. Without an effective opposition, corporations had free reign. The ideological implications of the collapse of communism, and Eastern Europe's rush to jump on the capitalist bandwagon, reinforced corporate confidence and corporate aggressiveness reached new heights.

The new world, business told us, was tougher but the pain would be short-lived and well worth it - the restructuring of the economy and of society was an investment that was part of building for the future. The cold shower of unemployment forced on workers was the unfortunate cost of getting inflation under control, and ending inflation would make us competitive, keep the dollar strong, and set the stage for steady progress. Weakening unions would remove barriers to job creation. Free trade would close the productivity gap with the U.S., bring more and better jobs, and secure our social programs. Deregulation would be a boon to consumers, privatization a blessing to taxpayers. Getting the deficit in shape would protect future generations.

Well, it's been almost a generation now and people are starting to do both their own accounting, and starting to demand some accountability. With echoes of the thirties, people are looking around at this new world and asking what past sacrifices were for, and what happened to the benefits promised. The success of the corporations in

winning their agenda has set the stage for a *test* of what their leadership has meant for the rest of us. Have, as the Globe and Mail declared “*so many [rarely] had it so good*”?

In the previous twenty-five years, between 1946 and 1971, real per capita income in Canada had more than *doubled*. In the twenty-five years since, and in spite of the acceleration of technology, the painful restructuring, the longer hours and harder work, it’s gone up by only a fraction of a percent per year.

In fact, in the decade 1986-1996, the real median family income actually fell - the first ten year period this had occurred since the years spanning the Great Depression more than half a century before. And the social programs which were formerly an example of our achievements as a country, are today seen by our business and political elites as “problems” that - although affordable without deficits in earlier periods when we had less collective wealth and productive capacities, are today inexplicably considered as being “beyond our means”.

Behind the stagnation in the *average* material standard of living lies a stunning growth in the unequal *distribution* of what we get. *Some* have in fact never had it so good and this is clearest when we listen to their complaints. Richard Todd, writing in the magazine Worth, reports a conversation with a retiree in Florida “*All I know is that it seems to take another digit these days. There are lots of people around here ... who retired a few years ago with two or three million, thinking they were set. Now they feel poor.*” (December, 1997).

Alan Binder, the American economist who formerly worked under Alan Greenspan, the head of the U.S. Federal Reserve, recently commented that “*When historians look back*

*at the last quarter of the twentieth century, the shift from labour to capital, and money and power up the income pyramid is going to be their number one focus.” (Toronto Star, July 20, 1997).*

Internationally, the impact of thirty years of accelerating globalization has included a rising gap between rich and poor. The ratio of the top 20% of the world's population to the bottom 20% was 30:1 in 1965. Latest numbers show it to have doubled to 60:1.

Half of the Asian population - 1.5 billion people make less than \$500/year. A 1997 United Nations report warned that “*Evidence is mounting that slow growth and rising inequalities are becoming more permanent features of the world economy*” (UNCTAD, September 11, 1997) .

In Canada, overall income equality is today worse than at *any* point in the past half century. And, unlike the past, inequality is now increasing even during upturns: between 1993 and 1996, the top fifth saw real family income increase by some \$4,600 while the bottom fifth - averaging a little over \$17,000 in annual income - actually experienced a *decrease* in income.

Child poverty in our country is worse today than when the federal government sanctimoniously began its “War on Child Poverty” at the end of the eighties. In Metro Toronto, so long a model for other North American cities, one of three children now live in poverty. In Ontario, payments to single mothers are being cut to pay for tax cuts heavily biased to the well off in society (to generate the monies for Harris' tax relief for someone earning \$250,000/year, you have to apply the welfare cuts to *five* families led

by single mothers with kids). For people on welfare, “incentives” are about having less, for executives, “incentives” are, conveniently, about having *more*.

The Financial Post, commenting on the expansion of the million dollar club in Canada, advised “*Wanna get rich? Be a player, not an investor.*” (December 20, 1997). The red-suspender crowd, busy “playing” the market and often producing nothing except the occasional turmoil, takes the occasional break to pass on a different kind of advice to workers, lecturing them to work harder.

The extent of the inequality in our society - and the hypocrisy that is its constant companion - is most evident not so much in the tax breaks but in the mind-boggling corporate salaries themselves. CEO compensation in Canada increased by \$190,000 or 32% in the three-year period 1992-95 (according to a study done by accounting firm KPMG); just the *increase* by itself represented four times the total annual income of the average family. A bank president now makes more, in his first two days of work after the Christmas break, than a clerical worker makes year round.

As for all the talk about efficiency, there is nothing less efficient than unemployment, yet we tolerate some one-and-a-half million Canadians denied the chance to be productively employed citizens. Today, two consecutive months of under 9% unemployment has economists raving about our fantastic success. To put this in context, in the thirty years after the War, the unemployment rate never went *above* 7.5%.

Young people today represent the most educated potential workforce ever, but they're having a tougher time getting jobs and the average pay they get is *below* the pay for comparable age groups with *less* education twenty years ago.

The hype about new opportunities in high tech obscures the real problems the next generation will face. In the United States, for example, with its powerful high tech base, jobs related to computer systems will in fact grow very rapidly, but projections through 2006 suggest that such jobs will still only represent about 2% of total job openings and will be far exceeded by job openings for occupations like cashiers, or cooks and kitchen staff, or retail clerks, or waiters and waitresses.

The Canada U.S. Free Trade Agreement, business confidently stated, might mean a slight loss in sovereignty but would bring us the more important benefits of higher productivity. Now, recent analyses show, the Canada-U.S. productivity gap in manufacturing has worsened and widened. As a Wood Gundy study put it in classic understatement, "*In the eight years since the Canada-U.S. Free Trade Agreement was signed, Canada's productivity performance has failed to live up to expectations*". ("Occasional Report #19", September 2, 1997).

Corporate success in changing the political climate held out the pay-off of attracting more foreign investment. And foreign direct investment did in fact, increase dramatically over the years, doubling in money terms over the past decade - but the outflow of direct investment *tripled*.

During the fifties and sixties, Canadian capitalism and capitalism more generally built a base for stability that rested on three specific legs. It had demonstrated that it could deliver the goods in terms of material standard of living. It could - in spite of the reality of owners and workers, rich and poor - argue, with credibility, that capitalism provided the democratic spaces, via unions and parliament, for everyone to influence outcomes. And it could rally people around a common national project and vision - in Canada's case, that of maintaining our independence from the United States, and building a kinder capitalism on our share of the continent.

Today, each leg of that base has been seriously damaged and the base itself is starting to wobble.

Today, the message - at least for most of us - is less about the system delivering the goods and more about austerity, restraint, and the erosion of social programs ranging from education to health care, unemployment insurance to public pensions. Workers can work harder, their employers can be more successful, but - and downsizing and outsourcing are only one example - the link between overall economic success and the guaranteed sharing in that success is weaker than ever before.

In the workplace and in society at large, the expansion of international economic links is directly related to the *contraction* of democracy. Globalization, we're told, imposes pressures that neither unions nor governments can challenge. So here too, a former asset of capitalism - its compatibility with a relevant and working democracy - is undermined.

The message, as someone explains to the knight in the feudal comic strip “The Wizard of Id”, is: “*Remember the Golden Rule - them that has the gold, rule.*”

In this context, any vision of what we are or what we can do is narrowed to the restricted world of corporate bottom lines and competitiveness. Margaret Thatcher proudly acknowledged this, proudly proclaiming - in response to criticism about the direction of her policies - that “*There is no such thing as society.*”

What we are left with is a world not just devoid of hope, but which depends on the very loss of any hope, and the resultant passivity, to sustain itself. It may leave most people living in fear, insecurity, cynicism and therefore demoralized and temporarily demobilized. What it cannot do is unite, move, excite, or expand on what human beings can jointly construct. It represents the end of community and, as Thatcher said, any meaningful sense of *society*.

This reduction of society to the economic, and the collapse of any vision to a transparently *class* vision, is particularly blatant in the business sector’s latest project, the MAI (Multilateral Agreement on Investment). What that proposed treaty essentially argues for is “protecting” investors from the democratic intervention of the community. It elevates investor rights to a status that is beyond citizens and their governments. At the same time, there is total silence about any corresponding *responsibilities* of investors.

In a sense, this simply reflects the inherent logic of capitalism. Milton Friedman, the ideological father of modern laissez-faire, once said that “*Business as a whole cannot*

*be said to have responsibilities. The doctrine of social responsibilities is a fundamentally subversive doctrine”.*

At one level, I can agree that under capitalism, the business of business is, and perhaps should be, business. I've never believed that we should expect corporations and bankers, going about their business and responding to competitive pressures, to act *socially* responsible on their own - in fact, that's precisely why, in any society that sees itself as more than one giant factory, we so clearly need rules and regulations to direct business in a way that incorporates social and democratic needs.

The point is that business and society are always inter-related; what business does *always* impacts on society. If we pretend otherwise and leave business “alone”, then the “business” of society is also reduced to “business”. The deregulation of business and investment will simply translate into the regulation of citizens and communities *by* business and *through* the market. As a Globe and Mail editorial approvingly put it, “*in politics there is no left or right anymore, just arithmetic.*” (November 25, 1996).

In the past, governments were a buffer between business and the people in a dual sense - they provided programs to offset negative impacts of the economy and, at least as important, represented something to *blame* for problems, a group that could occasionally get turfed out with the hope of change.

The Mulroney government is a clear example of the latter. The frustration of Canadians with so much of what had been happening to them in the eighties wasn't directed at the corporate sector that Mulroney was so intently catering to, but against

“government” and especially Mulroney himself. And so Mulroney was rejected, only to be replaced - with no break in continuity - by an administration self-righteously critical in opposition but once elected, committed to the closest imitation and even acceleration of Brian Mulroney’s policies.

But as business successfully discredits a role for government in addressing the inadequacies and excesses of the markets, government responsibility for our problems fades and that responsibility is shifted to the real source of power, the corporate sector. A few years ago, David Rockefeller remarked that “*We (the transnational corporations) are now in the driver’s seat of the global economic engine. We are setting government policies instead of watching from the sidelines.*” (quoted in CCPA Monitor, 1996).

What Rockefeller dared to state is now increasingly sensed by those being ruled. Business may be “winning”, but its failure to turn those same victories into a better life for ordinary people is slowly starting to raise questions about the corporate elite’s legitimacy and even *competency* to play such a dominant leadership role in society.

How come we reward corporate executives and bankers so well, and leave them with so much power over our lives, when they deliver so little? Where are the jobs? Where are the social programs the BCNI promised in the run-up to the free trade election? Where is the security? What exactly is Canadian about “Canadian business”?

Over the last fifteen years, the rate of asthma doubled among children and hospital admissions due to respiratory illness of children increased by 40%. What is the connection between our refusal to regulate the environment - the air we breathe, water

we drink and soil our children play in - and the assumption that economic progress should include a steady improvement in public health?

How much is enough? In reporting that the Toronto Dominion's Chairman received stock options worth over \$40 million, the reporter saw this as "*A startling example of how rewards now include immense personal wealth, not just the power, prestige, private elevators and comfortable pensions with which previous generations have had to be content*" (Globe and Mail, December 16, 1997).

Why, as author Doug Henwood asked, do governments in crisis borrow from the rich instead of taxing them and then pay them interest for the privilege of not being taxed?

If the point of getting the deficit and inflation under control was to restore investor confidence, how come our dollar fell to the lowest levels in history *after* we, the deficit and inflation dragons were slain? Is there a link between the fact that since 1989 Canada's deficit fell faster than any other G-7 country while our growth ranked last?

Is the international economy out of control? Why does money flow from those who need it to those who don't? How did the International Monetary Fund get it so wrong in Asia so soon after the financial disaster in Mexico? Didn't the IMF assure us a short time ago that "*There is no doubt that globalization is contributing enormously to global prosperity*" (World Economic Report, 1997) - in the very same report that it glowingly cited South East Asia as a model of development just months before it collapsed?

What about the bankers who echoed the IMF by investing all that money in Asia - did they know what they were doing? And where was all the corruption everyone now emphasizes, when Business Canada visited the region without even a whisper of any criticism or when we hosted the APEC Conference and *actively* silenced Canadian students daring to speak the truth?

How come no-one cares much about the ordinary Joe's mortgage problems but when the banks make a mistake - as they did in Asia - we're so quick to bail them out *and* so comfortable using the ordinary Joe's tax monies to do so while also putting the squeeze on all the ordinary Joe's in the third world? Isn't it interesting that, for all the talk about getting government out of our lives, when the Big Guys are in trouble it is governments they look to for help?

I don't know where this all takes us, but I do know that there is a frustration out there - and not just in Canada - that most of business has been too distant to notice and too arrogant to address.

In the U.S., the Washington Post, commenting on the defeat of Clinton's attempt to fast-track the extension of NAFTA into Latin America, declared that "*No longer do Americans take it for granted that an open economy makes everyone better off*" (December 10, 1997). A columnist in the Los Angeles Times, considering the response to financial bail-outs in both the U.S. and Japan asserted that "*the ordinary citizenry, in both the United States and Japan is starting to figure out the abusive political economics involved*" (December 28/97). A New York Times poll showed surprising numbers of people identifying

themselves as “working class”, blaming “the economic system” for layoffs, and calling on the government to do something about layoffs (March 5, 1996).

The strikes in France of 1995-6 were significant not just for the support they had from workers, but the overall national support they had in spite of the inconvenience they caused. Reporting on one poll, the writer summarized that “*Gone was the optimism of the mid-80's, especially among young people, who now said they distrusted private employers. There was a loss of faith in business*”.

In Canada, the protests across the country over the last few years, the recent Days of Action, and the Ontario teachers’ strike revealed a mood of resistance that no-one anticipated. The Canadian banks have been embarrassed enough - and nervous enough - to respond with an advertizing blitz to “educate the public”. But the patronizing use a small fraction of our own money to “re-educate” us into accepting a status quo that has failed us, is more likely to ignite anger than gratitude.

The ultimate response from business and its spokespersons to all of this is that at the end of the day “there is no alternative”. This may work for a while - it has worked so far - but I can’t imagine that it’s sustainable. It essentially admits that capitalism has no solution to our problems and so seems to condemn our current system, rather than defend it.

Capitalism has, historically, demonstrated many of the potentials of what humans can achieve. I happen to believe that what we have today isn’t the end of that story of human and social development. If the best we’re offered is that “there is no alternative”,

then I suspect people - and especially young people - will eventually rebel as pent up anger and frustration accumulate over the system's inequity and hypocrisy, its failure to mobilize human potential, its steady erosion of any scope for actually influencing our lives, its increasingly irrational and fragile and its general small-mindedness. Any comfortable complacency is dangerously misplaced. At some point, the message a frozen status quo forces on people is that they "have no alternative but to radically change the system".

I'm certainly not making any predictions about if and when this might occur or if it does, what form it might take. But if it does happen, I certainly won't be surprised - and neither should anyone in this audience.

For those of us in opposition to current trends, the immediate issue is to maintain and strengthen the checks that keep alive values and priorities broader than "competitiveness". For others not quite on the same wavelength, there are still reasons for sensitivity to such concerns - whether out of self-interest over longer term stability, or out of a genuine concern for what is happening in our society.

If anything is clear today, it is that a meaningful democracy demands institutional *counterbalances* to corporate power in the workplace, the community, and in society as a whole. Amongst other things, this implies the deepening of unionization as well as more effective and active unions; opening up the increasingly monopolized media and communications; and greater thought to making all levels of government more accessible

and responsive as instruments for addressing the needs, and developing the rights, of *all*  
its citizens.

nkopeiu343  
02-23-98