
REMAPPING DEBATE

Asking "Why" and "Why Not"

Citizens without obligations?

Original Reporting | By Mike Alberti | Citizenship, Corporations, Politics

June 12, 2013 — If American corporations are, as the Supreme Court ruled in 2010, citizens entitled to free speech and other rights *from* the nation, what corresponding obligations *to* the nation do these corporations have?

“For individuals, we’ve always thought that citizenship entails a balance of rights and responsibilities,” said James Post, the co-author of “Corporate Responsibility: The American Story” and a professor of management at Boston University. “Does it still mean the same thing for corporations?”

The question of whether American multinational corporations have national obligations, and if so, what those obligations are, is “one of the most central and least recognized public policy questions of our time,” said James Post of Boston University.

In an effort to find out whether American corporations are the kind of “citizens” that believe that they have national obligations, Remapping Debate contacted the representatives of more than 80 corporations. Most had no comment, a striking finding in and of itself.

And among the corporate representatives who did comment, most were unwilling to say that their corporation had any obligations to the United States, let alone to define any such obligations with specificity. Moreover, representatives of some American multinationals said that their companies do not even identify themselves as being American in any sense except that they are legally incorporated and physically headquartered in one of the states of the U.S.

This has not always been the case. According to numerous experts, the managers of American companies used to feel strong national and social ties (see box titled “When obligations went with benefits”). The disintegration of that sense of obligation raises crucial questions for policy makers as to whether and how to reinforce those ties, and as to what special privileges, if any, should continue to be offered to corporations that are nominally “American.”

According to Post, the question of whether American multinational corporations have national obligations, and if so, what those obligations are, is “one of the most central and least recognized public policy questions of our time.”

All American?

Remapping Debate reached out to corporations of various sizes in a range of sectors, from huge, iconic multinationals like General Motors and Boeing to smaller, primarily domestic companies like JetBlue and RadioShack.

The majority of the fifteen corporate representatives that responded said that their companies did consider themselves to be American.

“I think that most of RadioShack’s 30,000 employees would say that it is an American company,” said Kirk Brewer, head of corporate communications at RadioShack. “The brand has been part of the American landscape for a long time, and the roots of today’s company stretch back more than 90 years.”

“There’s no doubt that we’re a global company,” said John Dern, vice president for public relations at Boeing. “but we are first and foremost an American company. We have deep roots in American history and the American economy, and having an identity as an American company is very important for us.”

When obligations went with benefits

For the vast majority of their history, American corporations were perceived by both the public and by corporate executives themselves as having a broad range of obligations — including national obligations — that competed with the goals of making profit or creating value for shareholders.

“The idea that a corporation exists solely to make money is actually quite new,” explained Ralph Gomory, a professor of management at New York University. The broader sense of corporate responsibility was starkly apparent during World War II, when many U.S. companies dramatically changed their operations to aid the war effort, Gomory said, but it also extended through the 1950s, 1960s, and 1970s. “Even in the early ’80s, you would be more likely to hear a CEO talking about his responsibilities to the country or to his employees than his duty to the shareholders.”

In practice, that broader sense of corporate obligation translated to self-imposed restraints on the way that companies interacted with their communities and with their workers, said William Lazonick, a professor of economics at the University of Massachusetts, Lowell.

“For example, up until the 1980s, CEOs were extremely reluctant to shut down factories and lay off a large number of workers,” Lazonick said. “Mass layoffs were actually seen as a serious abnegation of corporate responsibility. It was understood that the company had a responsibility to its workers, and that if it failed, society at large would be on the hook for that failure.”

Margaret Blair, a professor of law at Vanderbilt University, added that the connection between American companies and the nation as a whole was felt strongly by corporate CEOs, who “saw the corporate sector as one of the major forces that was working in the best interests of the country.”

Blair pointed out that in the period from World War II to the 1980s, it was far less common to see corporate executives lobbying the government for special rights and benefits, including lower taxes. “It was accepted that, if the United States was going to be a powerful economy and have a high quality of living, then the corporate sector needed to do its part to supply financial resources to the government,” she said. “There was no sense of it being the corporations versus the government. It was much more about everybody being in it together.”

When asked what it was that made them American, however, most companies did not speak in terms of the permanent bonds between a nation and its citizens. Instead, some spoke of the history of their development, or talked in terms of statistical or legal information about their businesses (sales, employment, location of headquarters, or state of incorporation).

For example, when asked what makes the company American, a representative from Ford cited the fact that it “conduct[s] the vast majority of our research and development, produce[s] more than 2 million vehicles annually, and employ[s] more than 66,000 employees.”

A representative from Whole Foods cited the fact that the company is incorporated in the United States, “does well over 90 percent of [its] total business right here in the U.S.” and that “all of our Executive Team and almost all of our top 100 leaders...were born in the United States.”

Some companies — even iconic companies like U.S. Steel — said that the question of whether they had national obligations did not pertain to them, because they do not consider themselves to be American at all.

National obligations?

When corporate representatives were asked directly whether their companies have national obligations, a few said “yes.”

For example, Greg Martin, the executive director of communications strategy and news operations at General Motors, said that GM does have “obligations to the country that go above and beyond our obligation to our shareholders.”

Brewer of RadioShack said that while “[i]t’s hard to imagine what RadioShack might do to act in the national interest...I am pretty sure we would never intentionally act against the national interest.”

Jeff Noel, the vice president for communications and public affairs at Whirlpool, drew the line somewhat differently. Noel said that while the company has “a strong desire to be a responsible citizen,” it does not “have a duty or an obligation” to do so.

Most commonly, companies refused to respond directly to the question.

In an email exchange, for instance, Remapping Debate asked Molly Donahue, a spokesperson for Caterpillar, whether the company considers itself to be American.

“We are an American company that also operates globally,” she responded.

When Remapping Debate followed up by asking whether being American means that Caterpillar has any particular obligations to the United States, Donahue responded that the company had “no additional information to add as it relates to your question.”

Similarly, Allison Steinberg, a spokesperson for JetBlue, cited the company's efforts to employ veterans as a factor that makes the company American. When asked whether that meant that JetBlue has particular obligations to the United States, however, Steinberg refused to comment further.

Chris Olert, a spokesperson for Consolidated Edison, said that the company does consider itself to be an American company, but when asked whether the company has any national or patriotic duties, he said, "Well, I wouldn't say that."

Boeing's John Dern said that "serving the country and its broad economic interests is important to us," but "I don't know if I'd call it in a patriotic way."

And some companies said that the question did not pertain to them, because they don't consider themselves to be American at all.

Lynn Brown, vice president of corporate communications at Waste Management, which is incorporated in the United States but also operates in Canada, said that the company considers itself "North American."

Even some iconic American corporations took a similar line. For example, Courtney Boone, a spokesperson for United States Steel, said that the company does not consider itself to be an American company, but rather "a company with headquarters in the United States and operations globally."

A shrinking sense of responsibility

Beginning in the 1970s, a number of factors combined to begin the erosion of that broader sense of corporate responsibility, Gomory explained. Most prominent among them, he said, were the end of the Cold War and the onset of rapid globalization, an ideological shift in economics and business schools towards the idea that the purpose of a corporation was to maximize shareholder value, and the alignment of the interests of corporate executives with shareholders through stock-based compensation.

In a [paper he co-authored on the history of corporate responsibility](#) earlier this year, Gomory cites two statements on corporate responsibility issued by the Business Roundtable.

The first, issued in 1981, maintains that corporations have a responsibility to "each of the corporations constituents." The statement goes on to say:

Responsibility to all these constituents *in toto* constitutes responsibility to society...Business and society have a symbiotic relationship: The long term viability of the corporation depends upon its responsibility to the society of which it is a part. And the well-being of society depends upon profitable and responsible business enterprises.

The second statement, issued by the same entity in 1997, illustrates the way that corporate purpose had narrowed: "[T]he principal objective of a business enterprise," the statement says, "is to generate economic returns to its owners," that is, its shareholders.

According to several observers, American corporations, even those with substantial international operations, reap innumerable benefits from being incorporated in the United States and being considered American “citizens.”

“American corporations are benefitting enormously from being thought of as American citizens,” said Richard Sylla, a professor of economics at the Stern School of Business at New York University (NYU). “And lots of policy gets made with the goal of helping American businesses, with the assumption that there is some relationship based on mutual obligation.”

According to Richard Sylla of New York University, “lots of policy gets made with the goal of helping American businesses, with the assumption that there is some relationship based on mutual obligation.”

Some of those benefits, Sylla said, are very direct and tangible. “You have the full force of American military and diplomatic power backing you up,” he said. “You can’t put a price on that.”

Sylla also mentioned that the Department of Commerce, Office of the U.S. Trade Representative, and the Export-Import Bank “exist only to find ways to give American companies an edge in global markets.”

Other observers cited a variety of other benefits that American corporations receive.

Wayne Ranick, the director of communications for the United Steelworkers, pointed out that American corporations “benefit from the infrastructure that is publicly financed, employees who are trained and educated, and the largest consumer market in the world.”

“There are a lot of benefits that get taken for granted,” said Scott Paul, the president of the Alliance for American Manufacturing. “The stability of the U.S. government and the size and reliability of the U.S. economy are great benefits for companies.”

Lynn Stout, a professor of law at Cornell University, said that the U.S. legal system was another great, underappreciated benefit for American corporations. “In terms of the quality of judges and the speed and efficiency of decision making, we have the most appealing legal system in the world,” she said.

Greg Martin of General Motors acknowledged that the company had benefitted very directly from policies such as the government bailout of the automotive companies in 2009, but also less directly from the country’s investment in research and development, skilled domestic workforce, and “the spirit of freedom and aspirational values that permeate American society and make it possible to succeed here.”

But most companies had a more difficult time explaining the benefits they had received. Several companies said that they had benefited most from being perceived abroad as being an American company, which helped them to sell their products in foreign markets. Lynn Brown of Waste Management cited government regulation that made it more difficult to operate municipal landfills, which “essentially allowed the company to come into being.”

According to Richard Sylla of NYU, “it’s revealing that the benefits they cite are so self-serving. It shows that they think of themselves as opportunistic entities, not participatory members of society.”

A fundamental disjunction

Sylla said the fact that many American corporations see themselves as entitled to the benefits of citizenship — without incurring reciprocal obligations — is reflective of a fundamental disjunction between how individual and corporate citizenship are perceived.

“We’ve determined that a corporation is legally like a person in lots of ways,” Sylla said. “They have rights, including the right to free speech, and they enjoy an array of benefits. Don’t most of us think that those rights and benefits come attached to obligations? When they say they don’t have any national obligations, it shows we have a double standard.”

William Lazonick, a professor and the director of the Center for Industrial Competitiveness at the University of Massachusetts, Lowell, pointed out that not only do many corporations benefit from being considered American citizens, but they also actively use their citizenship to lobby for further benefits.

“When they appear before Congress and say, ‘Unless you do this, America won’t be able to compete,’ they’re basically appealing to some notion of citizenship and the national interest,” said William Lazonick of the University of Massachusetts, Lowell.

“When they appear before Congress and say, ‘Unless you do this, America won’t be able to compete,’ they’re basically appealing to some notion of citizenship and the national interest,” Lazonick said. “They’re saying, ‘I’m entitled to something because I’m American.’”

When they then “turn around and say, ‘We don’t have any responsibilities,’” he went on, “that’s the pinnacle of hypocrisy.”

As an example, Lazonick pointed out that Apple has repeatedly lobbied Congress for a tax break that would allow it to bring profits made abroad to the United States at a lower tax rate, and has argued for the break because it would be beneficial for American workers.

But Apple executives have, on other occasions, renounced any national responsibility. “We don’t have an obligation to solve American problems,” one executive [told the New York Times](#) in 2012. “Our only obligation is to make the best product possible.”

While Apple declined to comment for this story, representatives of other companies made it clear that they did not want to limit themselves in any way by identifying as American or proclaiming responsibilities to the United States, and that they viewed their nationality in opportunistic terms.

“In some cases, being defined as an American company is what is important,” said Courtney Boone of U.S. Steel. “In some cases, it’s that we operate globally.”

According to several experts, there is a range of policy options available that could re-insert a greater sense of national obligation in American companies (see box titled “How to rebalance benefits and obligations”).

How to rebalance benefits and obligations

Experts identified a range of measures that could be taken to re-align the goals of American corporations with the country as a whole and broaden the understanding of corporate responsibility to include national obligations.

Some of those options, said Richard Sylla, a professor at the Stern School of Business at New York University, are external to the structure of any individual firm, operating at a more systemic level to shape the actions of corporations.

“One of the goals of corporate executives will always be to make money and create value,” Sylla said, “but we have the power to make sure that they can’t do that if it means working against the national interest.”

One such measure that Sylla advocates is the strategic use of import tariffs to make it less profitable for American companies to manufacture products abroad and then ship them back into the U.S. market. He also suggested offering tax incentives to companies who create a certain percentage of their economic value in the United States.

Other experts suggested measures that would change corporate governance to broaden the purpose of the corporation.

According to William Lazonick of the University of Massachusetts, Lowell, the alignment of the interests of corporate executives with shareholders has been one of the most powerful factors contributing to the narrowing of corporate obligation over the last three decades. To change that alignment, Lazonick would push to reduce the use of stock-based compensation and have executive pay reflect performance measures other than share price.

Another way to break the exclusive alignment of executives with shareholders, he said, would be to change the makeup of corporate boards by, for example, requiring that a certain percentage of the board be made up of employees or members of the community. This practice already exists in other countries, notably Germany, where all corporate boards are required to include worker representation.

According to James Post, a professor of management at Boston University, another way of influencing the decision-making of executives would be to change the laws governing the fiduciary duty of pension fund managers to allow them to invest with a greater social purpose.

And Ralph Gomory, a professor at New York University, suggested going even further by explicitly broadening corporate purpose through state incorporation law, making it easier to establish corporate entities with a stated purpose other than maximizing shareholder value. That state purpose could include “creating well-paid jobs for American workers, improving the quality of life in a particular community, or making technological innovations that will benefit the country as a whole,” Gomory said.

Lynn Stout, a professor of law at Cornell University, said that using incorporation law to re-define corporate purpose would make it possible to “impose citizenship obligations on corporations that are incorporated within our borders.”

Exactly what those obligations should be, Stout added, “is something that we as a society need to be having a serious conversation about.”

According to Lynn Stout of Cornell, there are numerous measures that can be taken to change the internal dynamics of individual firms.

“In most companies, everybody is working on the understanding that the company has no obligations except to make money and to follow the law,” she said. “But that hasn’t always been the case, and there are innumerable ways that we can broaden the responsibilities of corporations.”

Ralph Gomory, a research professor at New York University, explained that another set of solutions is external to any specific firm and involves creating a broad economic and legal structure to incentivize firms to act in the national interest.

“There’s no shortage of possible solutions,” Gomory said. “Once we begin to ask why we have different expectations of individual citizens and corporate citizens, the hard part is done.”

Government for whom?

According to Richard Sylla, however, continuing to operate as though corporations have rights and are entitled to benefits without any attendant duty other than to make profits has profound implications for our political system.

“It begs the question, ‘who are our elected officials there to serve?’” Sylla said. “Is this government of, by and for the people or of, by and for the corporations?”

Some observers, however, believe that if corporations have been acting in a way that’s contrary to the interests of the country, it’s only because policy makers have not extended them *enough* benefits.

Justin Danhof is the general counsel of the National Center for Public Policy Research, a free market think tank based in Washington, D.C. In an interview with Remapping Debate, Danhof explained that serving any national obligations “is not what corporations are there to do.”

WHAT ABOUT CAPITAL CONTROLS?

According to many experts, the ability of companies to shift operations, employment, and capital across national borders with relative ease creates what is perhaps the largest barrier to imposing national obligations on corporations. Indeed, said Ralph Gomory, a professor of management New York University, “it’s become basic economic dogma that [governments] should always seek to restrict the movement of capital as little as possible.”

In practice, Gomory pointed out, that “dogma” means that policy makers are dependent on retaining the good will of corporations. Fearful that imposing national obligations would result in capital flight, governments have been reluctant to do so.

Thomas Palley is an economist and policy advisor to the AFL-CIO. Adopting policies that make capital movement more difficult or costly, he said, may well be in the country’s best interest, as when greater investment in domestic infrastructure and industry is needed.

Palley acknowledged that most all corporations would reflexively oppose such policies today, but said that it’s possible to imagine a reality in which corporate executives accepted such policies as part of the cost of being incorporated in the U.S.

If, however, American corporations came to perceive themselves as having broader obligations, they might “understand that they need to subordinate their narrow financial interests to the interests of the country.”

Palley added, “That would be the kind of corporate citizenship we should be moving towards.”

The only goal of corporations, he said, is to make money for their shareholders. While Danhof agreed that companies sometimes act against the national interest, as in the case of mass offshoring, he said that it is policy makers who bear the blame for that behavior.

“Why would a company offshore?” he asked. “It’s because the environment that’s been created domestically is not conducive to their competitiveness anymore. If they can be more profitable somewhere else, then they have no choice but to go.”

But according to James Post of Boston University, that mentality leads inevitably to “a race to the bottom, in which every country just tries to do everything it can to cater to corporations, regardless of what they’re getting for it.”

In that framework, said William Lazonick of the University of Massachusetts, “governments have effectively ceded decision-making power to the corporations.” (See sidebar on previous page titled “What about capital controls?”)

According to Ralph Gomory of NYU, that framework would be considered “intolerable” by most Americans, and yet “our economic system is based on the assumption that the relationship between the United States and corporate American is one of mutual benefit, and that American corporations will work in the national interest.”

The first step in changing that framework, he said, is to abandon that assumption. “Then you have to really step back and ask, ‘What kind of economy do we want to have?’”

Additional research by Samantha Cook.

This content originally appeared at <http://www.remappingdebate.org/node/1976>