The New Economic Warriors

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By Robert J. Samuelson
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They've gone from heroes to bums. Hardly a day passes when the press or prosecutors don't thrash some corporate CEO for alleged managerial blunders or accounting illegalities. The insurance mogul Maurice "Hank" Greenberg, lately of American International Group Inc., is only the most recent target. Then there are those familiar symbols of scandal: the former bigwigs of Enron and WorldCom. A few years ago American chief executives were celebrated as architects of the New Economy. Now they inspire scorn or rage. What we have is a corporate Watergate, says management consultant John Challenger. It's that -- and more.

Like the preceding glorification, the present vilification obscures a larger reality. The true transformation of CEOs is not the recent plunge from public grace. It's a slow-motion evolution that, despite many excesses, mistakes and some crimes, has served the nation rather well. To oversimplify, CEOs have changed from bureaucrats to warriors. You can glimpse the effects in a couple of statistics. The first: In the fourth quarter of 2004, after-tax business profits were 9.2 percent of national income, the highest since at least 1950, says Mark Zandi of Economy.com. The second: From 2001 to 2004, annual growth in productivity (output per hour worked) averaged 4.3 percent, the best since -- again -- 1950.

In our mind's eye, we see CEOs as a ruthless and selfish bunch, closing factories, squeezing health insurance coverage and slashing wage increases -- even while arranging lavish pay packages for themselves. To some extent, the stereotype unfairly dehumanizes CEOs. But like many stereotypes, it contains much truth. In 2004 the CEOs of 179 major companies were paid an average of $9.84 million, up 12 percent from 2003, reports a survey done by Pearl Meyer & Partners for the New York Times. By contrast, average labor compensation rose only 4.5 percent.

But the obsessive drive to improve profits, though cold-blooded, also creates often-overlooked social benefits. It's not simply that growing profits bolster the stock market or finance new investment. The broader point is that advancing productivity -- a fancy term for efficiency and a byproduct of the quest for profits -- is the wellspring of higher living standards. Without it, we'd quarrel ferociously over pieces of a fixed economic pie (heck, even with it, we quarrel).

What moves productivity is a mystery, subject to many influences: new technologies, workers' education, the level of inflation and corporate management, among others. From 1973 to 1995, productivity growth averaged a lackluster 1.5 percent a year. Mediocre management was partly to blame. Small wonder. In the 1960s and 1970s, the prevailing idea was that CEOs should mediate among a company's various "stakeholders" -- workers, customers, shareholders, communities and governments. CEOs were usually "company men," promoted from within. Their main mission was to protect the organization and polish the public reputation of corporations. They were compensated like tenured bureaucrats without much incentive pay.

Growing profitability and productivity were taken for granted, because American management was assumed to be so superior.

It wasn't. Competition -- foreign and domestic -- intensified. Hostile takeovers threatened lagging companies. Worried CEOs focused more on the bottom line. Directors increasingly picked outsiders as CEOs, "searching for a corporate savior," writes Rakesh Khurana of the Harvard Business School in his book by that title. The talents, temperaments and values of CEOs shifted. The new breed is more individualistic, more "charismatic" (Khurana's label), more profit-driven. They're not "company men"; they're corporate "change agents." They're devoted to improving the firm's economic performance; other goals come second or third.

This broad transformation -- even if it doesn't apply to everyone -- illuminates today's CEO paradox. At worst it leads to abuse and fraud. The abuse consists of all those inflated pay packages, reached in uncompetitive negotiations with directors. CEOs are often overpaid in the sense that they would work just as hard for less. From 1993 to 2003, the average compensation of CEOs of the Standard & Poor's 500 companies rose 146 percent after inflation, report Lucian Bebchuk of Harvard Law School and Yaniv Grinstein of Cornell University. Unlike bureaucrat CEOs, today's warriors feel little self-restraint; having been charged to maximize corporate profits, they feel entitled to maximize their own. The fraud occurs when this mind-set causes executives to resort to accounting deceits to prop up profits and stock prices.

But headline outrages are not the only story. A vibrant economy requires someone to screen out inefficiencies and promote change. In the 1980s U.S. companies were compared unfavorably with Japanese and German rivals that supposedly focused more on the "long term." In reality the "long term" was often an excuse to stand pat. The American economy has done better -- achieved higher living standards, adapted more smoothly to change -- in part because most CEOs faced problems when they arose and didn't wait for the long term.