InSight

The I and the We

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The U.S. Agriculture Department reports that 33 million people – one out of nine Americans – are receiving food stamps today. Forty-nine million people experience food scarcity.

The recent recession has cut deeply into the well-being of our population, dropping tens of millions of people from the middle class into poverty. Having a large impoverished population in the U.S. creates many risks. Recovery from recession may be slower because of the lack of broad spending power. Our shrinking prosperity may diminish our competitiveness in the world economy.

Creating stimulus programs to prevent more people from slipping into poverty has created large budget deficits, which are almost certain to produce inflation.

In our society, upward mobility has always contributed to social stability. Civil unrest or increasing crime may result if a large portion of the population feels permanently consigned to poverty. This recession has also diminished the arts, social networking organizations and media that enrich and strengthen our society, and the educational system that shapes our future.

If we want to restore prosperity and growth in this country in our lifetimes, it is extremely important to correctly understand the causes of the recent economic meltdown, to really learn the lessons and to take effective steps so that these mistakes will not be repeated.

Causes of the Great Recession abound, including lack of oversight of the financial and real estate sectors, overspending on the Iraq war, inefficiencies in our energy use, insular automakers, and many other immediate and underlying factors.

But one of the root causes is the obvious lack of understanding among some of our leaders that the prosperity of the individual or company over time will depend on the prosperity of the society as a whole. Because products need customers and the general economy must be healthy for individuals to succeed, over the long run I only do well if we do well.

Understanding this reality necessitates a deeper understanding and longer vision by our leaders than we have recently experienced. Think about those who sold sub-prime mortgages to people who really couldn’t qualify. Sure, there was profit to be made in the short term. And maybe the folks taking on a mortgage they couldn’t afford fulfilled their dreams by getting the house they wanted.

But did the financial institution leaders think about what would happen to these marginal borrowers when their mortgage payments ballooned? What happens if they default? What happens to the economy if millions of people default? Is a greater short-term profit worth the possible consequences? And, when customers default, what happens to the bank or mortgage company that offered such loans? Think Countrywide; think Lehman Brothers.

The recent risk-taking behavior of the financial sector reflects a lack of sophistication in seeing the relationship between the I and the we. If it is simply a lack of caring or responsibility rather than ignorance, then it is certainly self-absorption that backfires.

I believe in creating wealth through insight and hard work. As an investor, I certainly like making money. The last thing we want to do is to decrease the incentives for entrepreneurs to create new products and establish new businesses; in Ayn Rand’s terminology, to cause Atlas to shrug.

But I understand that my prosperity depends on the prosperity of the society around me. If I invest in apartment complexes, for example, rents are higher and profits are greater if those who rent apartments are more prosperous, lifting market prices for this commodity.

Most of our focus in addressing the causes of the recession has been on government crisis management of the financial sector and creating new oversight mechanisms to control future excesses. Though regulation and oversight clearly need to be improved, regulation often focuses on past problems and won’t necessarily address future challenges.

The instinct to keep the balance between the I and the we, to understand the economy as a whole and shape actions in view of their long-term consequences, should be deeply ingrained in our society’s business and government managers by the time they reach key leadership positions.

To really learn the lessons of this recession, we must look carefully at the people who are emerging as leaders in business and government. We are not, to the degree necessary, recruiting individuals with the proper knowledge, values, judgment or sense of responsibility to succeed by keeping the good of the economy as a whole in view as they pursue profit.

How can we fix this? Perhaps through education of those on the path to leadership, at levels from grade school through business school. Perhaps by educating the public to better recognize the necessary qualities of leaders. Possibly through leadership training and coaching programs.

How to create the leaders we need will be the subject of another column. \( \Omega \)