

What Is Business Waiting For?

By [JOE NOCERA](#), New York Times, August 16, 2011

When the German economy turned south after the 2008 financial crisis, the pain was mitigated by a program known as “[Kurzarbeit](#).”

The word means short work. Instead of laying off workers, German companies cut back their hours. The government then used money set aside during good times to pay the workers around 60 percent of their lost wages. The labor unions went along because they believed it was better to keep people employed even at reduced pay. This is the German social compact.

As we suffer through our own economic hard times, the German approach is something we can only envy. Here, companies quickly lay off workers, many of whom never find their way back into the full-time labor force. Corporations shy away from investing for the future, even though investment is what will turn the economy around. The government, for its part, invariably starts talking about “job creation,” but rarely does anything that makes a difference.

This downturn is no exception. What are the latest unemployment figures? [Some 25 million people](#) — more than 16 percent of the work force — are looking for full-time work. Companies are hoarding cash while reporting record profits.

As for the government, President Obama’s idea of job creation is extending unemployment insurance, on the one hand, and painting grandiose pictures of far-off “green jobs,” on the other. He is bereft of ideas for creating jobs in the here and now. Meanwhile, the Republicans insist — [despite mounds of evidence to the contrary](#) — that more tax cuts would create jobs. By now, most Americans have lost hope that our current government will come up with a viable jobs program. It won’t.

I am coming more and more to think that with the government essentially paralyzed for the foreseeable future, the only way we’re going to get jobs is by turning to actual job creators: business itself. With all their cash, companies shouldn’t be waiting for Congress to give them tax incentives to hire people. They should be trying to jump-start the economy — and fend off another recession — by making investments, and hiring workers, that will lead to renewed prosperity.

The only way that’s going to happen, however, is if our society implicitly makes the kind of compact that German society makes explicitly: We have to be willing to allow companies to sacrifice short-term profits for the long-term good of the country. As the leadership expert Michael Useem [wrote recently](#) on The Washington Post’s Web site, business needs to make “people a priority, not just earnings.”

What makes that hard for executives is that they’ve spent the last 30 years having it beaten into them that the only thing that matters is delivering “shareholder value.” Over time, this phrase has become code for focusing on short-term profits — and chief executives who have ignored this mantra have often found themselves kicked to the street by impatient investors like Carl Icahn.

But as Useem points out, it hasn't always been this way — and doesn't have to be in the future. “What might seem an *idée fixe* of the American way is really a moment's artifice,” he writes, “a prescription that served a past era but less well the current one.”

Indeed, it turns out that the focus on short-term profits is nowhere enshrined in the law. On the contrary: Delaware law, where many big companies are incorporated, gives directors enormous leeway to ignore short-term gain if they believe that doing so would ultimately benefit the corporation.

Does it ultimately benefit American business if the country gets back on its feet again? It seems to me that you can make a pretty strong case for that. If enough companies started hiring — while wrapping their actions in the mantle of patriotism — even Carl Icahn might have trouble complaining about it.

There is, of course, another reason corporate executives might be reluctant to sacrifice short-term profits by putting people to work. What if their competitors didn't go along? Then they would find themselves at a disadvantage. Useem would tackle that by having a credible group like the Business Roundtable leading the charge, rounding up companies that would agree to start hiring.

But Marc Groz, a financial risk expert I've gotten to know, has what I think is a more intriguing approach, which he calls a “contingent commitment facility.” “Everyone is waiting for someone else to go first,” he told me the other day. Using his facility, a company would agree to hire X number of new workers. But the commitment would only become binding if certain conditions were met — such as having other companies in the same industry agree to do likewise. Once that happened, all the companies would have to do what they'd promised.

Groz's idea is new and fresh and untested. It could fail. In other words, it is exactly the kind of out-of-the-box “job creation” idea that our stymied government no longer has the ability to come up with. The ball's in business's court now.