

**UNIVERSITY OF CALIFORNIA  
CENTER FOR SOCIAL JUSTICE  
SYMPOSIUM**

**“The Corporation in Social Context: An Agenda for the Future”  
March 14, 2003**

**Raven Lecture: “Shareholder Power-Corporate Responsibility”**

**Lecturer: Phil Angelides Treasurer, State of California**

**Responders: L.Hunter Lovins, Co-chair of the Natural Capitalism  
Group of the Global Academy  
Kellie McElhaney, Executive Director of the Center for  
Socially Responsible Leadership Initiatives, Haas  
School of Business, UC Berkeley  
Carl Pope, Executive Director, the Sierra Club**

Male. —devoted to thought and action in New York City, and The Global Academy, which has taken a lead in corporate responsibility, and responsible investing over the past several years. Our hope is that, coming out of this lecture today and our conversations which will take place tomorrow, these three organizations will launch an ongoing effort to deal with issues of the corporation in social context.

Our speaker this afternoon will be introduced by Mary Louise Frampton, the Director of the Center for Social Justice. I will only say that we could hardly have a better person to kick off our look at the corporation and social justice, since his creativity and effective leadership in this sphere has been a kind of beacon, not only in California, but across the country. The fact that corporate institutions are under so much challenge and scrutiny today makes this undertaking particularly timely.

Let me then introduce without more, the Interim Dean of the University of California at Berkeley Law School, Bob Bering. Thank you. [applause]

Bering. I don't think I've had to be so careful going up and down steps since my years as an altar boy. It's a real pleasure to be introduced by Charles. There are those who contend that we were twins separated at birth. I've attempted to use him as a stand-in on a couple of occasions, but I actually think he's a little better looking than I am. It's a genuine pleasure and honor to welcome you all here, and welcome our state treasurer here for this conference. It's a wonderful representation of what Berkeley in general, and what I like to think Boalt Hall in particular does really well, and that is bring together the energy and the efforts of people. [Demos], the Global Academy, the Center for Social Justice, the Raven

Lecture are all coming together to bring the best speakers and thinkers on an important topic.

The area, the idea of corporate responsibility is so much at the center of the life of a place like this law school, that I think it's marvelous and appropriate that we all convene here for this meeting. I'm not going to take up a great deal of your time, but I do want to acknowledge the fact that the Raven Lecture, what's beginning the conference, it has been folded into the conference. Robert Raven and Leslie K. Raven were marvelous individuals. Robert Raven was a partner at Morrison Forrester for over 40 years, and upon his retirement in 1994, the firm created a professorship, which is currently held by Professor Rachel Moran. And also created this lecture series, which is about access to justice.

And keeping in mind that, even as we train people to go into all walks of government and the private sector, at the heart of the enterprise is access to justice. I want to congratulate Mary-Louise and Charles and everybody who worked in the conference for bringing these forces together in such a wonderful way. So, with that, I do want to introduce Mary Louise Frampton, who's the head of our Center for Social Justice. Very typical of her, I asked her, "What should I say in introducing you?" And she said, "Don't talk about who I am, talk about what we do." And the Center for Social Justice that she's headed for the last two years is really one of the beacons here at the law school.

And in the last decade, I've seen so many fantastic enterprises get under way and become realities. And the Center for Social Justice has done just that. It took a lot of dreams and a lot of ideas and creativity, but it's become a real part of the school, and a central actor in the intellectual life of Boalt Hall. So, it's a real pleasure to introduce Mary-Louise Frampton. [applause]

Frampton. Thank you, Bob. On behalf of the Center for Social Justice, welcome to this year's Raven Lecture, in honor of Bob Raven's lifetime commitment to the public interest. Usually, the honor of introducing our Raven speaker goes to Professor Rachel Moran, who holds the Raven chair. This year, Rachel could not be here, and so the privilege falls to me. And it is a very great privilege, because for many years, I have been a great fan of Phil Angelides, our state treasurer, a member of the [CALPERS] board. And many predict and hope, the next governor of the State of California. [applause]

I first heard Mr. Angelides speak many, many years ago in a tiny law office in Fresno, California. And at that time, Mr. Angelides was discussing his vision of the great wealth of this state being invested in the most underdeveloped parts of the state. Not only in the rural areas like the

Central Valley, but also in our inner cities, to benefit the least fortunate among us. Even though that was many years ago, I still remember that speech, and I predict that those of you who are here this afternoon will remember what Mr. Angelides says years from now.

As treasurer of the State of California, Phil Angelides has used his very considerable political influence, his intellect, his drive, and his courage to make sure that the public's money is used for the public good, and to make a reality out of the vision that he talked about many, many years ago. For those who say that politicians these days don't have the courage of their convictions, who only talk in sound bites, who really don't care about the poor and the dispossessed, that there are no more statesmen in political life, I only need to point to Phil Angelides to disprove them.

A graduate of Harvard University, Mr. Angelides spent many years in state government as an expert in urban planning and public finance. He then entered the private sector to form his own management and investment firm, which won national recognition for its innovative approaches to problems. Active in civic life in general, he was also head of the California Democratic Party until 1992. Then, as state treasurer, he brought a wealth of experience and business savvy and political influence to make sure that the public's money is used for the public good. Now, because Mr. Angelides is actually able to say in 25 minutes what most people take two hours to talk about, and because corporate social responsibility is such a broad topic, this afternoon we've asked three other leaders in their respective fields to respond briefly to Mr. Angelides' remarks before we have questions.

The first of those is L. Hunter Lovins, [unintelligible] right here, the co-author of nine books, who is co-chair of the Global Academy Natural Capitalism Group, and co-founder of the Rocky Mountain Institute. Next to her we have Kellie McElhane, who is the head of the New Center at the Haas School of Business that is focusing on corporate social responsibility. It's called The Socially Responsible Business Leadership Initiatives. She is also a distinguished fellow in corporate responsibility. Last, but certainly not least, Carl Pope, who has been the executive director of the Sierra Club for the last 20 years. And through his career, he has become the preeminent voice in this country for environmental movement, and is a very thoughtful scholar, as well on the issue of sustainable environment.

So, you're in for a treat now: Mr. Angelides. [applause]

Angelides. Thank you very much, Mary-Louise. I don't like that introduction, because you raise expectations. I like [unintelligible] introductions, keep the expectations low, and then pleasantly surprise my audience. Thank

you very much for asking me to be here to give the Raven Lecture, and to honor the memory of Bob Raven and the work he did in terms of social justice. It is indeed my honor to be with you here today. What I'd like to do today is really talk about what I think is an extraordinary opportunity we have in our country today for shareholders, for Americans broadly who are the owners of American corporations, to exert more influence, more direction on corporate behaviors to the benefit of our economy and our society.

And I just want to say that there's a context for all of this, which is, clearly over the last two years, we have witnessed the ruining of our public equity markets, we've witnessed a wave of corporate scandal that is unprecedented since the Great Crash of '29. And I will just tell you, as treasurer of the State of California, as someone who sits on the board of the California Public Employees Retirement System, with \$130 billion in assets, and the State Teachers' Retirement System, with \$97 billion in assets, that the last couple of years has been, to put it mildly, one heck of a ride. And I've tried to explain to people what it's like to have been part of that, and the best way I can express it is to say, you know, if any one of us in this room two years ago had bought \$1,000 worth of Enron stock, you'd have about 72 cents in your pocket today.

If you bought \$1,000 worth of WorldCom in March of 2001, you'd have \$1.50 in your pocket today. Now, if each of us had gone out and bought \$1,000 worth of Budweiser, and I mean the beer, not the stock, and we drank it all, and we returned the cans for the deposit, we'd have \$160 in our pocket today. [laughter] So, based on this, you would think my advice to you today, as treasurer of the State of California is to drink heavily and recycle. [laughter] But I hope to do a little better.

What I'd like to do is outline some thoughts I have about how we can rebuild the confidence of investors and Americans broadly in our financial institutions that have been so heavily pummeled by revelations of corporate malfeasance, deception and fraud, and how, in the course of doing so, we can imbue a new sense of responsibility in the corporations of our country. I suspect that we would have to go back to the days of the robber barons of the turn of the last century, or perhaps, as I said, the dark days following the market manipulations of 1929 to find an equivalent period of corporate misconduct in our history, or at least where that corporate misconduct was so evident to all of us across this nation. Mark Twain once said that history does not repeat itself, but it rhymes.

And although the schemes and scams that we saw in the last two years differ in detail from what we saw during the period of the robber barons or the Crash of '29, the results were very much similar. Insiders profited while small investors were losing their shirts, corporate officers drew huge

salaries while their firms were going bankrupt. Overleveraged companies in a race for quarter-by-quarter expectations were misleading their shareholders by cooking their books. And in a sense, everything that happened now has rhymed with the worst kinds of human behavior, excesses in the marketplace that we've seen before. In watching all this, the simple kind of answer to come to is that we saw some abhorrent behavior, and we saw, as the president was fond of saying, "a few bad apples."

But I think we do have to come to grips with the fact that the conduct we saw was pervasive, and that, in fact what we saw in this country was too many corporate officers, too many directors, too many financial consultants, too many accounting firms, and too many investment banks swept up in scandal. And the longer that I've looked at what's transpired, the more I'm convinced that what has happened speaks to a fundamental problem in this country that we have an obligation to address. And the problem really started with the notion that somehow [unintelligible], and that's distinguished from wealth for a society can be created quickly without the hard work and perseverance that steadily builds true wealth for companies and economy and society over time, and that somehow there was a disconnect between the ethics and responsibility of corporate America and the standards of our society.

The get rich quick mentality, the notion of somehow that there's a disconnection between corporate ethics and the standards of society is really what led to the unprecedented breakdowns in ethics and standards of conduct that ultimately has shaken the very foundations of our financial institution, done great damage to our economy, and harmed millions of pensioners, taxpayers and families. You know, just to recall, because in so many ways, this has now faded from the front pages, but the reality of the misconduct is really still with us. It's worth recalling how brazen the conduct became, and how outside the norms of what we should expect of leadership in this country was.

Just to give you some context: The FBI reported that from 1996 to the year 2000, if you totaled up all the money stolen in bank robberies in this country, it would come to about \$204 million. But in less time it would take to pull off a single heist, both pension funds, CALPERS and CALSTERS lost \$850 million on the WorldCom fraud alone. While Tyco CEO Dennis Kozlavsky was spending \$10 million of company money to purchase two New York apartments and \$11 million to furnish a second apartment with items such as a \$15,000 dog umbrella, which is most fascinating to me, because is it an umbrella or is it a dog stand for umbrellas? Or a \$6,000 shower curtain, or a \$445 pin cushion, or a million-dollar party for his wife on corporate money. When that was happening, Tyco's investors, ordinary Americans, for the first time in the context of democratization of

capital in this country, Tyco's investors watched their stock lose \$106 billion in value as it tumbled from \$60 to \$7.

And of course, when Ken Lay happened to mention in a conference call to Enron investors that the company had instantaneously lost \$1.2 billion in equity, of course he didn't mention he had sold tens of millions of dollars of stocks before that conference call happened. I believe that in the wake of those very chilling events, the restoration of the public's faith in our financial system is absolutely critical to our economic well-being. And it goes beyond just cleaning up the work of accountants, disinfecting the economy of the greed that permeated it, but to the larger question of what are the standards we expect in our free enterprise system, which has so much to say about the contours of our society?

And make no mistake about it: The willingness of Americans to invest in the future, the willingness of Americans to take prudent risk that leads to long-term economic growth will be absolutely linked to their sense of whether the markets operate with integrity, with openness, and with fairness, and whether they believe that corporations in this country conduct themselves by the mores and standards of our society as a whole. Indeed, if you look at some of the greatest challenges to our economy, they have occurred after investors have lost confidence in the credibility and soundness, and in the very standards of conduct of our financial institutions.

After the Crash of 1929, it was not until 1953 that the Dow Jones Industrials exceeded its 1929 peak. And it is not an overstatement to say that a whole generation of Americans who weathered the Crash of '29 and the Depression never again invested in the stock market. Putting their savings under mattresses, and in fact, after so many bank failures, being very wary about the risk they took with their savings. For our free enterprise system to work, there has to be a relationship between the standards of society and the standards of conduct in business. And Americans have to be willing to take prudent risk, business risk in the context of markets that they truly believe are fair and honest. So, renewing public trust in corporate America and in our financial system in the broadest sense, not just cleaning up accounting standards, not just seeing independent accounting audit committees. Not just seeing independent nominating committees, but really restoring faith in the sense of corporate conduct and its [coalescence] with our best expectations, I believe is fundamental. And it will require the full commitment of those of us who are in public leadership positions, those who are in private leadership positions, and those who have an ongoing stake in the American economy.

Now, central to reestablishing trust is clearly a robust and a vigorous federal regulatory system. The genius, in my mind, in so many ways of the American economic system at its best is it's been able to blend the creativity, the dynamism, the wealth creation of the private sector with a regulatory system that [has best] protected the public from excesses, and put public interest parameters around the marketplace. And in the wake of reforms in the 1930s, to all those who put deregulation and the untrammled market on the pedestal, I remind them that what gave us the opportunity to become the preeminent economy in the world in the last half of the 20th century was our ability to blend both private sector dynamism with public interest protection that resulted in the faith and confidence of investors in the fairness of the market.

And we absolutely need an aggressive regulatory framework to do that. But I'm deeply concerned, as anyone should be as to whether the commitment in Washington is truly there to make that a reality. And the reality, just plainly spoken is this Bush administration, the new majority in Congress has shown no inclination to really be committed to a full agenda of corporate reform and changing the behavior of corporations in this country. If you just look at 2002, during the most critical time in our markets in over half a century, the SEC and the federal regulatory framework stood rudderless as people like Attorney General Eliot Spitzer in New York and a new wave of investor activists did the work of trying to spearhead reform in this country.

I'm hopeful, though, even as this issue has receded from the front page, that if we can highlight the importance of this for sustained economic progress, then at least we can hold their feet to the fire to some extent in Washington, and hopefully the SEC will do at least some of its job in terms of regulating the marketplace. But even with the most robust federal regulatory system, in my mind no reform effort can be complete unless the owners of American corporations, shareholders also commit themselves to exercising the power of the purse to bring about a new era of corporate responsibility. And the fact is that we have seen dramatic changes in the complexion of ownership in this country, and it falls to investors to step up and take their rightful role and responsibilities in imbuing a new sense of responsibility.

And again, as I said, this is particularly important at the very time when the commitment of Washington is not present. Now is the moment for investors to seize the mantle of activism, and now is the moment for investors to assume their rightful role. Because we do have a very different marketplace than we had two decades ago, a decade ago. In the 1990s, the public equity markets witnessed remarkable change and growth. Corporations, for their part enjoyed unprecedented access to capital. Between 1995 and 1999, there were more than 2,800 stock

offerings. By 2002, 84 million Americans from all walks of life owned stock, and just 19 years later, 1983, just 42 million Americans were shareholders.

Institutional investors, such as pension funds and mutual funds, which represent the investments of millions of America's working men and women now own about half of the nation's equities. It's very clear that institutional investors who, in the end represent police officers, firefighters, teachers, professors, nurses, construction workers and the other hard-working people of this country must be an important force for constructive change in the ethics and accountability of our financial institutions, and in the conduct of corporations in this economy and society. Over 200 years ago, an Irish patriot named John Phil [Patkuren] said, as we all know, "Eternal vigilance is the price of liberty."

And I would paraphrase that aphorism today by saying, "Eternal vigilance is the price of a sound economy." And the events of the past year make it incumbent upon investors to make sure that the new standards of ethical conduct that we seek are securely woven into the fabric of the nation's business practices. In December of last year, my office released a report which we dubbed "The Power of the Purse: How Investors Can Restore Integrity to Our Financial Markets," that is a call to action for investors across the nation, urging them to take the lead in ensuring that corporate reform becomes a reality in this country.

And I've been going across this state and across this nation, trying to invigorate the investor community to step up and bring about the changes which must occur. In "The Power of the Purse," we laid out six basic tenets to guide a new era of investor activism, and I'd like to touch on those at this moment. First of all, it seems to me that investors, in the conduct of our business must demand the highest standards of ethical conduct and transparency, and mean it. What it really means is when we transact millions of dollars of businesses with companies in this country, whether we're working with investment banks or money managers of direct investments, that we have to embrace the common sense practice of transacting business only with companies that are known for their honest dealings.

As an example, the State of California each year will sell about \$30 billion in debt, and for that business, we have investment banks who compete mightily for our business. And that is why, in July of last year I joined with Attorney General Spitzer in New York, and my colleagues in North Carolina and New York in setting down a set of standards for investment banks and the money managers with whom we worked. We expect a disclosure, elimination of conflicts of interest, in which we told them that we expected them to change their practices, or they would risk losing

business with the State of California. I know each of us, in the end, when we're hiring someone to work on our home, or if we're in business and we have a business relationship, fully expect that the people with whom we're working do their business well, charge fair prices, and in the end conduct themselves ethically. And it seems to me the stewards of capital, investors should have no lesser standards.

And I believe deeply that if there are consequences for poor behavior by corporations, by investment banks and by money managers, consequences will reverberate through the marketplace if we, who give out the business are serious about the standards we set. The second important principle that investors should adopt is that we need to start acting like the owners that we are. In a democracy, voters, citizen activists make change by the intensity of the passion they bring to an issue, and their willingness to organize around it. And we now find ourselves, as Americans, as the owners of America's corporations. We have the power to vote, even though it is somewhat, at times like a North Korean election. Hopefully federal law and stock exchange rules will begin to strengthen our right to vote, but we need to act on those, and we need to organize if we want to bring about change.

We do have the right, as tough as it is, to dump an incompetent, self-serving board of directors. We do have the ability, [and soon will] at the New York Stock Exchange-listed companies and Nasdaq companies, to eject a stock option plan which is the benefit for the executives and not the workforce as a whole. And we do have the right of shareholder resolutions to express our views on the conduct of companies, again, in which we have an ownership stake. But let's be clear about it: To do the work of democracy requires organizing, it requires belief and it requires that we have a sustained effort. Now, we've already begun down the road of hopefully energizing the institutional investor community. In August of last year, I joined with some of my colleagues in co-convening a meeting of major institutional investors in New York, representing a trillion dollars in assets, to develop an agenda for common action.

And we've begun to work with other investor groups like labor trust funds, and other progressive-minded investors to begin to sponsor shareholder resolutions, like one right now that we're running at General Electric that modestly asks that executive pay be paid to the long-term performance of the company. Which brings me to my third principle, which is fundamental, which is that we as investors need to work very hard to support corporate policies that reward value and not greed. We as shareholders should be willing to prepare to reward performance, innovation and the creation of long-term value in our companies. But providing incentive-based compensation and rewards to company executives is very different than sanctioning a culture of greed.

According to Business Week, the average salary of a CEO in this country in 1980 versus the average salary of a worker in this country was 42:1. By 1990, that had reached 85:1. And by the year 2000, a staggering 531:1. This is wrong, it's not sustainable, and it's damaging to the very fabric of our economy and society. And if we countenance this kind of disparity in corporate America, we are doing great damage to our society and economy, because in the end, a society of have and have-nots, which is manifested also in the structure of our corporations, will drag down our economic competitiveness. And if we believe deeply in our political life, in closing the gap of opportunity to rich and poor, in providing decent wages for workers, so they can support their families, it seems to me that, as investors we need to change the standards of executive pay and worker pay in America's corporations to promote sustainable development, sustainable growth of those companies.

And I just want to say there's a world of difference, for example between a stock option plan at a company like Intel, where, at Intel, executives, the top four executives get less than 1% of options, and the workforce gets 99%+, and companies where the executives, the top three or four get 90, 95% of the option consideration. Principle number four: We as investors need to rethink the passive investment strategies that we've employed for years. Over the last couple of decades, many institutions, in fact most have, in effect replicated the stock indices as they've sought to diversify their risk. And clearly, when you look at both CALPERS and CALSTERS, as two large pension funds, it is in our interest as investors to diversify the nature of our investments, across countries, across asset classes from real estate to stock. But it seems to me that we also have to be vigilant to protect our position. And if we see companies that are resistant to reform, if we see companies that consistently have poor practices with respect to their obligations to society that could and will, in fact effect long-term value in that company, we need to be willing to shun investment in companies that are resistant to reform, and companies that are likely to produce, over the long-term, poor value.

Number five, and I think this is fundamentally important: Shareholders, I believe need to send a clear message to companies that conduct counts. Too often in the investment world, investors have tried to construct a wall between investment decisions and corporate responsibility, one supposedly had nothing to do with the other. But I submit to you that if you see company executives who relocate offshore, with sham mailboxes to Bermuda or the Cayman Islands to avoid taxes or to weaken shareholder rights, or companies that consistently bend environmental laws and have liabilities from regulatory actions, or companies that exploit their workforce, I believe those are the very kind of companies that would

not think twice about sticking it to their shareholders. And those are not the kind of companies that are looking to create long-term value.

And that's why we have, at the state treasurer's office, we have taken actions to send a message that we expect a standard of conduct coincident with our expectations in society. We've banned doing business with a set of American companies that, in this time of national security's threat, at the time that we struggle for money to educate our children, have [unintelligible] set up phony mailboxes in Bermuda to lessen their American tax-load, and to preclude our ability as shareholders to pursue our rights. It's why we are sponsoring shareholder resolutions at Tyco and Ingersoll Rand and McDermott to ask them to repatriate in this country. And I believe this very deeply as someone who is in business for 15 years, and is now the steward of public funds, that I do not believe being a good investor means you need to support bad practices and values in a world of choices.

There are those who are going to argue that if we begin to look at corporate conduct, we're going down a slippery slope. But I absolutely believe that failure to take into account the conduct of a company in the context of society is, in fact in itself an act of fiduciary blindness. There is a world and a universe of investment choices, and we ought to be on, it seems to me, a search for the ones that meet the first test to which we should hold any investment, and that is good returns, but also we should be on a search for companies that meet the second test, which is their activities, their presence, their economic activity builds up our economy and society. You know, the notion that somehow we should strive to invest in a way that's financially successful and responsible in terms of our society can hardly be considered radical.

After all, if you think about it, each of us, and I believe we, as a society have an expectation that corporations should not only be profitable, but they should produce products of quality and conduct themselves well. If each of us thinks about the ideal private sector enterprise, it's one that excels on both fronts. We value the real estate development firm, which builds profitable, quality projects, which enrich our communities. We respect the successful technology company which creates value for shareholders and innovations for the future. And my question is why should we hold capital, ourselves as investors to a lesser standard? Felix Rollet, who is the very well-respected investment banker from New York, who served as President Clinton's Ambassador to France, and in the 1970s led New York out of bankruptcy, recently said that there is no contradiction between the fiduciary responsibility of a pension fund manager and the social responsibility of a public official.

And I say that those of us who are investors in America's corporations, those of us entrusted with managing the capital of this nation have a responsibility, yes, to those whose life savings we are entrusted to manage, but also to the larger health of the American economy, which is the single biggest determinant of the returns of our investments. And the sixth and final principle that we articulate is as follows: We all need to help companies do the right thing. We have to encourage people of proven integrity to serve on corporate boards and be willing to compensate them appropriately. We should reward executives and workers for sustained performance. And most importantly, all investors, whether they're individual investors, institutional investors, need to stop demanding short-term results as the expense of all else.

This quarter-by-quarter earnings expectation game has been very damaging, and it needs to be replaced by shareholder and management commitment to creation of value over the long term. In the wake of a market bubble and the excesses that we have witnessed, we need to move away in this country from the notions that became popular in the '90s, which held that riches could be created through artifice, that the economy could sustain itself in the context of ever-growing disparities of opportunity, and that ethics and corporate responsibility are somehow irrelevant in this new economic age. And it is time for all of us to return to the economic values that made this country great. Our willingness to make investments for the long-term and a commitment to create true wealth, which strengthens our economy and society.

I serve as California's chief investment officer, as a trustee of \$280 billion in pension and taxpayer funds, and I never lose sight of the fact that my most enduring duties are to protect the public treasury, to safeguard the life savings of pensioners and taxpayers. And in the course of doing that, my obligation is to restore the faith and confidence of investors. And that's why I've tried to take a very active role, using the power of our investment portfolio to make a difference, to try to combat corporate fraud and abuse, and to try and instill a new sense of responsibility in America's corporations. As Californians, our presence in the marketplace gives us a unique opportunity and obligation to influence business practices and corporate governance.

As treasurer, I can't prosecute company executives who break the law, but I can, as an investor make it clear that I won't tolerate malfeasance, and that I truly believe that in the end, corporations that have the long-term horizon, corporations that focus on building a strong workforce and treating their workers fairly, corporations that focus on creating products of value to society, and opening up new markets, corporations that abide by the standards of society and are good corporate citizens in the greatest sense of the word, I can send a message that these are the values I

believe, as an investor must be embraced in this country. This is a critical moment. The headlines have disappeared, and now we're about the hard work of trying to restore a sense of ethics and responsibility in corporate America, so that investors will return to the marketplace, and we can see sustained growth.

And I hope that investors across this country will rise to this challenge and create an environment in which we can sustain America's economic progress in the months and years ahead. Thank you for having me here today. [applause] I just got a note that if you would like to see our report, you can find it at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

Lovins. Let me broaden the discussion a bit from California and investment to the role of the corporation and the role of society. We all carry, I think a mental model that government solves problems. The rest of us kind of play at the edges. And if all politicians were like Phil, this might not be such a bad mental model. But increasingly we live in a world in which no one is really in charge. Governments have an important role to play, and Phil is showing what a government can do. But of the 100 largest economic entities now on the planet, well over half aren't countries anymore, or states, even if California is the, what, fifth largest economy in the world: They're corporations.

Phil speaks of the greatness that comes from the private sector dynamism and public regulation, a joining, if you will, of these two nodes of power. Well, there's a third one out there. In an internet-connected world, any well-organized segment of civil society can de-legitimize any country or any company, and if you don't believe that, check out the history of Monsanto, which in 1999 was dismembered as a company because a handful of mothers in the United Kingdom did not want to feed genetically modified organisms in baby food to their kids. Or check out what happened with Royal Dutch Shell when Greenpeace got a hold of it, after what happened in Nigeria, and Brent Spar, a Shell official privately said, "We're not so worried about regulation, because through WTO we can get around anything we don't like. But we're absolutely terrified of the way these citizen networks can instantly de-legitimize our company and destroy our franchise. It's terribly difficult to get all our people worldwide to appreciate the risks of this new accountability."

Now, given that real power, that is the ability to cause change now resides in three nodes in the world, I'm arguing we need a new theory of governance, a new way to give each of these three sources of change a real seat at the table. Because if you look at the problems that are facing us around the planet, I don't see any way that we're going to solve them absent a coming together in a genuine partnership of these three segments. When Walter Link, who's chair of Global Academy and I were

asked to help plan the U.N. World Summit on Sustainable Development that happened last summer in Johannesburg, we put forward this thesis: How about a world summit that actually gives a seat at the table to corporations and to civil society? Of course, they didn't, and arguably that was a good part of the failure at Johannesburg.

Where the world's leaders came together, acknowledged the enormous problems facing our planet, and essentially did nothing. Given that, there is a growing anger in the world, a growing sense of alienation, a growing sense that our leaders have let us down. There's a growing sense that, and given Phil's numbers, legitimately so, that corporate leaders are in this simply for themselves, but also that political leaders are in it only for themselves, we don't have long as a society to get this right, to figure out how to bring these three sectors together in order to govern in this new world, before we start to see interesting forms, if you will, of vigilantism. We now have a situation where, with globalization, the Net and mobile phones and pagers and faxes, the same sort of technologies that enabled citizen networks to outwit the cops in Seattle, watching what companies do around the world.

So that a mining company that misbehaves in Malaysia is going to find itself having to answer uncomfortable questions when it moves into Latin America. Or a company that logs unsustainably in the Congo may find its sources of finance choked off in New York. The head of a major project finance corporation recently stated privately that his company would soon be adopting the World Bank's standards on environment and social behavior, because, he said, "I'm tired of those damned protestors on my back." And full-page ads in the New York Times, "Randy Hayes, this one's for you."

It's crucially important that we realize that, given the problems facing us, we're not going to make it. There's nothing that says that the human species has got to survive. A number of species have not. We're not going to make it if we don't change this mental model, if we don't, all of us, corporate leaders, leaders of civil society and leaders in government, step up, understand better the power that we do have, the power that we don't have, and come together in new ways to figure out new ways to solve these problems. Phil asked what it will take to create durable wealth, durable prosperity. Our current system is in peril not only because of corporate malfeasance, but because the way we practice capitalism is inadequate.

It's not a failure of capitalism, per se, the greatest known engine in the history of the planet for the creation of wealth. But the fact that, as currently practiced, it's violating its own internal logic by only counting two of the four forms of capital, at least four forms of capital, we count, we

trade financial and manufactured capital, and decide that we're all better off because we do so. What about human capital? What about natural capital, which, being placed-based, may not be enhanced by trade, but I would argue are vastly more important to genuine wealth and genuine prosperity, than the forms of capital that are on peoples' balance sheets?

We need not only a new system of governance, but a new system of economics that fairly counts these ecosystem services without which all life and thus all economics is in peril. The good news is that increasingly, corporate leaders are starting to redefine their role. They're starting to realize that they are not only responsible for next quarter's share price and next quarter's profits, but also for the fate of the earth. And leaders like Sir Mark Moody Stewart of Royal Dutch Shell, when the British government came to Shell and said, "You will not give into these terrorists," i.e. Greenpeace, Sir Mark said, "You know what? The terrorists are right," and committed Shell to a policy of becoming a sustainable corporation.

Now, obviously it takes time, and there's a huge internal struggle in Shell. But it is also the role of civil society to keep the heat on, to keep saying what we expect of corporations, and also to applaud leaders like Sir Mark, who have the honesty and the decency and the vision to stand up and say, "My job as a corporate leader is about more than just next quarter's profits." And Phil, thanks so much for the work that you're doing, your leadership in government, along with the leadership from civil society is increasingly what's making this problem. [applause]

McElhaney. I realize representing the Haas Business School that I should have been sitting on this side, and had Hunter in the middle and Carl at the end in terms of the spectrum of conservatism. But nonetheless, my name is Kellie McElhaney and I run the Center for Responsible Business at the Haas School of Business, as well as teach courses in the area of strategic corporate responsibility. I really just want to talk about three areas. Being the practitioner that I am, I want to get down into how you move from principles, which I think this document so eloquently lays out to actual implementation and practice. And as I listen to Phil and read about his ideas here, the first thing that comes to mind is it's unclear to me what the legal world would say about what is the fiduciary responsibility in the American legal idea of corporate officers, corporate directors and fund managers.

I have fewer and fewer, but I've had lawyer friends and law school professor colleagues who tell me that what I do and what I teach is, in fact illegal. Because they then so eloquently recite to me Milton Friedman, that says, "The only legal responsibility of a corporation is to maximize shareholder monetary value." So, I think there's a lot of work that needs to be done in the legal world to define, to put boundaries around how do

you measure performance, and is there a legal precedent there? In other words, can we imagine a possibility, is it possible that a CALPERS investee could come back and sue the fund manager of CALPERS if they invest in a socially responsible manner, and it outperforms how they would have invested otherwise?

I think that's a huge question, and currently still a huge barrier to truly moving this field forward, and I look to my legal colleagues to define it for all of us, and to put the boundaries there. The second issue, as you learn more about the field of socially responsible investing is the screening methodology. It's always slightly perplexed me how the community of socially responsible investors can sit around and screen out sin stocks, for example alcohol companies just before they go off and have cocktails and dinner. The negative screening process has not always proven to be a powerful or a universally agreed-upon process. So, for example, when you talk about demanding ethical conduct of corporations, there's a lot of room for value judgment on what is ethical conduct, and what is not ethical conduct, just here in this room, let alone the country of America, let alone the world.

I have a solution that I'd like to investigate more in relationship to the work that Phil is doing, and that's the positive screening methodologies that are out there. And I think we have some very good examples of funds that do positive screening. One that is probably least known to folks in this room, but one that I'm most interested in in the research that I do, and the work that I do in teaching in business schools is a fund called the Total Social Impact Fund. It's just started its third year. You can find more information at [totalsocialimpact.org](http://totalsocialimpact.org). because they have a non-profit foundation that runs their research. But they basically take the entire S&P 500, and the invest in the entire S&P by positively weighting on nine different criteria levels. The only level which is given a triple weighting is transparency, because in fact, without transparency, the others don't matter.

Even looking at the work that Innovest is doing in this area, and then the more obvious work with the [unintelligible] for Good Index, or the Dow Jones Sustainability Index. I'd like to see us leave the world of negative screens and move more into the field of positive screens, so you don't deal with the value judgments that exist. And then finally, I can only speak about what I know, and where my point of pressure is. I'm not a large institutional investor, so I don't have a lot of power there. I don't own a large corporation, so I have no power there. And since I left the corporate world and went back into academia, I don't even have a lot of individual investor power anymore. Although none of us do.

But I think there's a lot that can be done in the field of education. I take my job very seriously in the sense that I truly believe, I'd spent nine years

at the University of Michigan business school, where I see a former student in the audience, which is really bizarre to see. I just got to Haas last July, and I really truly believe that we are educating future business leaders, future corporate leaders. And it's not to say that I think every corporate leader out there today is too far gone to worry about, to try to change. I'll leave that up to Phil and Hunter and Carl. But I'm really interested in the current education of business leaders. So, we at Haas, through the Center for Responsible Business takes seriously the idea, and let me preface by saying that I very much teach corporate responsibility as linked to business value and business opportunity.

It is not philanthropy, it's not an add-on that is done somehow separate from paying attention to bottom-line returns. We really try to integrate this whole concept of stakeholder models, as opposed to just the shareholder model that we are so wonderful in teaching in our business schools. We try to broaden that and show how you can balance the demands of the broader stakeholder group. This won't be a popular thing to say, but since I'm not sticking around for dinner, I'll say it: The way I look at strategic corporate social responsibility in the corporate research that I do is that there are many barriers, and I can talk forever on the barriers, but there are three major barriers that I'm most interested in right now.

The first is the legal system, or the litigious nature that we now find ourselves in. You can look at the new U.N. Global Compact, which is a voluntary set of principles, and there are only 14 U.S. companies who have signed onto that, amidst how many global companies? I think they're up at 600. So, there's obviously a problem in the American legal system or the American society, where companies are saying, or maybe using as an excuse, "Our legal department will never sign off on it." And the funniest thing I heard was that we found ourselves in a situation where lawyers are now managing our business managers instead of business managers managing our lawyers.

The second barrier is media, because I certainly think they have played a huge role in being a barrier to true corporate responsibility, particularly in the balanced view of showing, and spending so much time focusing on the corporate scandals, which are obviously there and are big, but there are good news stories out there, as well. And try to get some press for that, and it's very difficult. And the final barrier, which is exactly my own world is Wall Street, and how we calculate market value. So, I would just leave with two challenges. One, look at your pressure point, where do you have a pressure point? If you're in the education system, how can you inculcate this into your education system?

Obviously, Phil's doing a very good job of dealing with his pressure point, or his point of access. A second charge, and one thing I really want to

commend Phil on doing, and something I teach in terms of good corporate strategy is the collective action. Phil obviously represents the fifth largest economy in the world, that there's a lot of collective action. But he didn't stop there, and I like the strategy that he then approaches and tries to partner with New York and North Carolina. Because even individually, he is so far less powerful as one state, than if he gets 15 states to sign on. Thank you very much. [applause]

Pope. I want to ask the question, "How did we get here? How did we find ourselves, at the beginning of the 21st century as the best-educated, most sophisticated, most networked, wired, and wealthiest society in human history, in the midst of what I think can only fairly be described as massive institutional malfeasance and incompetence?" When I was in college, I took economics from someone who was forged in the late '20s, early '30s, John Kenneth Galbraith, and he made an interesting prediction, which turned out to be remarkably precise, so I'm going to share it. He said in 1965 that as soon as the United States had a president who hadn't grown up in the '30s, all of the institutional problems of the '30s would come rushing back.

He said democratic capitalism has institutional vices, but only personal memories, so that everything that was learned in the '30s would be gone as soon as we had a president, which we did in 1992, who didn't remember all that. But there was a process by which we got here, and I think the process had three stages, and I think we're now in the grip of the fourth, and it is actually the fourth that has me most concerned. But you mentioned Milton Friedman. The first part of the process was what can fairly be described as an intellectual project. It was based in Chicago, Milton Friedman was its most vocal exponent, but it was also at the law school. And it intentionally set out to de-legitimize the concept that corporate governance was part of a social contract.

Corporate governance was to be removed outside of the social contract, and the corporation, far from being viewed as a person, which is what the courts viewed it as, was actually to be turned into an abstraction, a network of contracts with only one obligation maximizing shareholder revenue. And that project was remarkably successful to the point now that it is quite possible to find reputable, even dominant voices in both law and economics who teach not only that corporations have no social obligations, and that ethics is immoral in the governance of a corporation, but who actually argue that adherence to the law is a secondary value for a corporation, and that engaging in activities which both in civil terms, and even in criminal terms are illegal, should validly be viewed as a cost of doing business.

The second stage of this evolution began in the 1980s, and it was fundamentally the creation of a culture of greed. The fact is, as Paul Krugman has pointed out, in the 1950s, if you had the equivalent of a \$6,000 shower curtain, you couldn't let anybody into your bathroom. You couldn't show off a 40,000-foot mansion. It simply wasn't socially acceptable in the 1950s and the 1960s to have these kinds of excesses of wealth. And so we went through a cultural revolution, and I can't identify its epicenter quite as clearly. It probably wasn't Chicago, I probably can't blame Chicago for greed. Maybe it was started in California. Ronald Reagan certainly blessed it.

The third phase of our evolution was the dismantling of the policy legacy of the '30s and '40s, and that began really in earnest in the 1990s. Some of it was explicit, the conscious decision to eliminate the firewalls between investment banks and ordinary banks. But much of it was implicit. I think we don't understand even vaguely the cosmic social change we have unleashed by the incremental decision to move from defined benefit pension plans to defined contribution benefit plans. And we have been through, and we are still engaged candidly, in a process by which the safety net that was constructed in the 1930s and the 1940s as an alternative to the European welfare state is being dismantled with the quite explicit notion that nothing is to be put in its place.

Normally, all of this would work out, as it did in the '30s, and as it did in the last several years, the public would discover that it was standing naked against the winds, and we would relearn again the lessons that we learned in the 1930s. And I think that the work that Phil has been doing, and that so many others have been doing is a powerful and important and a positive example in that direction. But there is a fourth endeavor which we face which is new. That is the political de-legitimization of the concept that the public ought to have the right to make reforms. One of the striking things about public reaction to this administration is that Vice President Cheney is very honest and very explicit about one thing, which seems to give no one pause.

He states clearly, it is his desire, his goal and the policy of this administration to restore the powers of the presidency to those which it had at the height of the Cold War in the mid-1960s. And that is fairly frequently reported in pretty reputable newspapers, and people say, "Oh, okay." I have yet to see a single detailed reexamination of what the powers of the executive branch of the United States actually looked like in 1965, and what that would mean were that to actually come back. And I will cite two very simple examples. In 1965, with the exception of the House Education and Labor Committee, no committee at the House of Representatives of the United States met in public. All committee hearings and [markups] were closed. No, the hearings were public, the markups were closed.

Second, virtually no votes cast in the House of Representatives were recorded. The house would vote on all of the amendments to a bill, and the committee of the whole with no recorded votes, and it would then cast a pro forma vote on final passage. So, the American people in 1965 did not know how their member of Congress voted on most issues of economic and social policy, and most certainly on most issues of national security and foreign policy. And that secrecy, combined with the fact that there was no Freedom of Information Act, no associational right of standing. Most of the current standards, certainly in the environmental arena of process and public awareness were not existed.

But in 1965, it really was pretty much true: we elected a president, and he governed us pretty much as he wanted to, if he could get the consent of the Congress for the next four years. And I think we're at a very dangerous moment, when at the very moment when we need to revitalize public control over corporations, when we need to restore governmental and legal standards for corporate accountability, when we need to restore the sense that it simply isn't acceptable for corporations to only focus on shareholder profits, that we face a nascent politics which may stash away from us our best chance to achieve that. [applause]

Female. Mr. Angelides would like to make a few comments in response to the responders.

Angelides. Thank you, and thank you for your comments. Some of what was said just triggered some thoughts in my head. This is an arena where we could expand ad infinitum, but I just wanted to comment on a couple of things. First of all, I think this very notion of our corporations, bound by the norms of society or not is a pretty fundamental one. I don't know how anyone can construct an argument that somehow these legal entities are apart from. They are a creation of our economy, our society, and in the end, when I speak as a shareholder, I think it's important to note that I genuinely am speaking as an owner of that company, interested in the long-term performance of that company. And so I did want to say that it's very hard for anyone, I think to construct an argument that corporations are somehow apart, because they are a creation of.

The second thing I wanted to put on the table is this notion, and Kellie, part of this comes out of the work you do, but this notion of social responsibility somehow being a niche form of investment or something atypical, and this notion that somehow there's a pure correlation between Milton Friedman's view of maximization on one hand and poor performance, if in fact you're socially responsible. And just a couple notes on this: I think our society, our economy is replete with examples of corporate entities that are successful from a financial standpoint, and produce good products and services of value.

In fact, it really is our most important, enduring model of an American corporate entity. And there are many places where there is a great coincidence between return to investor and return to society. One of the things that I always found fascinating in the last couple of years is that we have fought very hard in the treasurer's office to open the eyes of our pension funds to the opportunities that exist for risk-adjusted returns in what might be considered underserved markets, the growing markets in California and across this country. Latino markets, African-American markets, Southeast Asian markets that really, in 20, 30 years from now will be the dominant marketplaces of our state, and certainly California, and in many respects, the country.

Here's an area where you good results and good for society in fact go together. In 1977, Congress passed the Community Reinvestment Act, which required that regulated banks and thrifts provide capital in all the communities they serve. Now, some quarter century later, the history of that act has been that regulated banks and thrifts have made mortgage money available, equity available for real estate and private enterprise, and that they found that once they gave these markets a clinical look, they turned out to be places where they could get return, expand their markets, and in the course of doing so, provide capital flows in communities that, absent some effort wouldn't have seen them.

Alan Greenspan, hardly one of the nation's leading radicals said in 1997 that there was no evidence that the Community Reinvestment Act had affected banks' safety and soundness. And the Federal Reserve put out a study in 1997 showing there was no statistical difference in profitability between banks that had high percentages of mortgage loans in low-income neighborhoods, and those that had low percentages of loans. In our own experience, we've invested, at the state treasurer's office \$1.3 billion over the last two years in Completely Reinvestment Act mortgages. Very simply, mortgage loans to low-income Californians, working Californians. And over the course of the last three years, we had a yield of 6.4% on those mortgages.

During that same timeframe, we spent a lot of time and effort with the fixed-income folks at our pension funds, who view these as risky investments, who didn't actually know this market. One of my favorite juxtapositions is that the same it took a year and a half to get one of the two pension funds to buy \$93 million of Community Reinvestment Act mortgages that yielded 6.4%, it took them about a week to buy \$330 million of WorldCom debt. The only thing I'd say is that because an enterprise is good, it should not be immediately viewed as somehow an inferior investment. Across the board, I think we can find companies that have performed well over the long-term, or sectors that do produce good results for society.

A couple more examples: Like a lot of American institutional investors, both CALPERS and CALSTERS invest a significant amount of monies in emerging markets overseas. Indonesia, Malaysia, the Philippines in the '80s and '90s. And if you look at the consistent results of those investments, they've been pretty consistently negative. And we really asked the question about what are the ingredients that lead to long-term growth in those countries? The whole notion of an emerging market is it has the ingredient that, over time will convert it to a developed market, and therefore you'll see value appreciation over the long-term. And so here's an area where we saw consistently poor results in countries and in companies where there weren't democratic institutions in place, where there weren't sustainable environmental practices, where there wasn't a developed legal system to protect shareholders.

And we did a lot of work in looking at research and came to the conclusion that in fact, that the emerging markets that have the greatest chance of success over time are those that are developing democratic institutions and stable political environments for investment, those that have fair and impartial legal systems where investors, if in fact they're wrong, can pursue remedies. Those places that in fact are adopting basic labor protections, sustainable practices, and an environment that creates sustained value over time. And so I think what I wanted to put on the table is that there is not this kind of given correlation between good results by a company, therefore poor results in terms of return.

And the final thing I'd say is, and this really goes to some of the comments, I think it's true that many of us have different views of what constitutes acceptable corporate behavior. But I'll tell you this: Almost all of us, it's like the Potter Stewart comment on pornography, "When we see it, we know it," whatever it was, I'm not a lawyer. There's the worst 5% of behavior. The option plan that is so excessive as to be clearly in the interest of the executives, not the company. Options that go to the top four people with no vesting, period. There's clearly companies that have such egregious, inconsistent violations of environmental laws or discrimination laws, that it gives you pause about how the company's being managed in terms of its long-term horizon.

There is the worst 5% of practices. If we're not prepared to move on those, what are we prepared to move on? And I really believe that at least as investors, we can get consensus around the worst kind of behavior, and if we're willing to move on that behavior, around which there's broad societal consensus that it's inappropriate, it falls below the threshold of any of our notion of corporate acceptability, that it will reverberate up across the marketplace. And if you don't act on those things that are so clearly egregious, then the signal really is, to corporate leadership, there are no bounds. I mean, you've really got to ask the question that when Bernie Ebbers was getting that \$400 million loan, where was the line?

Where was someone saying, "That is so out of bounds that it goes so contrary to creating shareholder value..."

When 20 American companies out of 7,000 publicly traded companies relocate in Bermuda so they can do what's called "earnings stripping," what they do is they arrange for their American subsidiary to owe a debt to the parent in Bermuda. They repay that with interest, they deduct the interest from their American tax bill and get the interest income free in Bermuda. It sounds good for each individual company, but of course, if all 7,000 companies did it, where the hell would we be? Unless we are willing to move on those very clear, understandable instances of behavior that fall below the threshold of what we all find acceptable, if we don't move on those, then we got really no chance of raising the bar of conduct. Those are the only comments I had. [applause]

Female. Our speakers will take a few questions, and because the acoustics here are so poor, we would ask that those people who have questions to ask, come to one of these two microphones, please.

Q. I certainly enjoyed your solutions and definitions of the problem. There's one area where perhaps we need social and governance improvement. I sadly repeat that California is number one in building prisons, and 43rd in education. I'd like to get all of your creativity, power and influence to reverse those two statistics. [applause]

Angelides. Not to pander to my audience, and it's a little off the main subject, but I'll say this: I wrote a letter to the governor and the legislature about three weeks ago on this very subject. Actually, I'm going to be at our Democratic Convention tomorrow, speaking on this, because it's really unfathomable to me how, and this may sound like a partisan remark, how, in the wake of the first Democratic sweep since 1882, we've somehow allowed the debate on the budget to be about how much we're going to cut public education. Here's my thought, very quickly. We are a \$1.4 trillion economy in California. Last year, we had \$1.2 trillion in personal income. California's only hope for a globally competitive workforce for the 21st century is the best possible education system, particularly in the context of 100 languages spoken in almost every major urban school, growing disparity of opportunity and wealth.

The very large and clear threat of a growing underclass that will tear at our social fabric. Our only chance of continued economic competitiveness is a first-class workforce. We are not going to be the cheapest place on earth to build products and goods. We can't compete with China, Malaysia, a whole set of other countries on least cost. So, just logically, the only ticket we have to sustainability economically is the quality of our workforce. Why on God's earth where, for the first time in years, test scores are up at the elementary school level, not yet at middle school or high school, but

why for the first time on earth when that's happening would you cut, for example, K-12... And that's not to say I don't care about community college, CSU or UC, but just take that number. To maintain spending for K-12 this year and next, accounting for enrollment growth and inflation, would cost about \$2.5 a year, which equals two-tenths of 1% of our gross state product, why would you be that pennywise and pound foolish? It's beyond me.

I just want to say, I happen to be one state-elected official who believes that we ought to be willing to raise the additional revenues, taxes, revenues, I've been advised by my best friends to call them revenues. [laughter] But those incremental revenues, in the context of a \$1.4 trillion economy, to keep that investment going. I don't get it. I really don't. I'll give George Bush credit for one thing, and this is going a little deep. He has these very clear ideological beliefs about how capital ought to be allocated in society. It's a very clear agenda that the more you allocate to individuals of capability and wealth, they're more likely to make investments that benefit everyone. And they believe in it grandly, and they push it grandly.

I really do ask the question about what are we willing to fight for? Don't we believe in a certain level of common investment, public investment to sustain the collective strength of our society? That's longer than you probably bargained for, but that's how I feel. [applause]

- Q. Would you be so kind to comment on Ms. Lovins' comments and suggestions regarding the need for a more integrated governance orientation that brings together responsible corporations, civil society and government in a new coalition of developing responsible policies?

Angelides. I think it has merit in the sense that, this is this unique opportunity where there's actually this great coincidence between broad ownership and these entities that are supposedly apart from society. But as in anything, the idea only becomes reality based on peoples' willingness and ability to organize around what they believe. In reality, I don't think the larger forces, the larger institutions will really come to the table with organized forces of individuals unless the voice of the individuals is very powerful and very strong. I think it can play out as investors, it can play out as activists. But I do agree that, to the extent that that movement shows any power, credibility, staying power, ability to draw continued attention to its goals, it will get the attention of the decision-makers in large institutions.

One of the things, I think, both with respect to the internet, and particularly the media is that these large institutions really are very responsive to campaigns about their behavior that are waged in a public way. And I really believe there's got to be that element to make it reality. It's kind of

like the tree falling in the forest. Unless people see it falling, it didn't fall. And I believe in corporate reform, there's 7,000 publicly traded companies. You can't effectively really impact the governance of each one in minute detail. But you can pick a few good fights that most people understand, wage them visibly, and I guarantee it will not only get the attention of that company, but it will reverberate, and change the nature of discussion in boardrooms.

One reason, I'll tell you that we've been very active in this campaign, this set of shareholder campaigns we're now waging against the expatriate companies... It's the kind of behavior that just viscerally almost everyone gets. I don't care whether they're a progressive businessperson, or just a worker. To them, it doesn't pass the smell test of acceptable behavior. Because someone with a print shop here in Berkeley, someone with a small factory, for them the Bermuda corporation isn't an option, and they really do see it as a way of thinking in the corporate boardroom that's apart from society. We're waging an active fight against those companies because people get it. And I really do believe that if you cut short that kind of behavior, it does change the nature of the boardroom discussion.

The next time someone thinks of the next angle to [jigger] the system, someone will say, "You know, we better be careful about doing that." And I think that's one of the things we need to accomplish.

Q. Could you address the role of us as individuals, not shareholders, but we're voters, and how we can effect change in the regulation and in the public sector. Maybe you could suggest ways that are the most effective.

Angelides. This is going to sound pretty basic, but look, I know Carl, and people like me, there's many forums in which you can undertake your activism. I chose as a young person, when I was an undergrad in college... It was serendipitous. I know Carl was at Harvard right before I was. I was a freshman in 1970. I was so interested in politics and the issues before the nation at the time, but I had not a clue about how to get involved. One day in the freshman union, there was a little notice to come here, a guy named Alan Lowenstein speak, all the old heads nod. Alan Lowenstein was a remarkable man who literally encouraged tens of thousands of young people to become engaged in the politics of their nation. But it was a little notice, and it said, "Tonight Alan Lowenstein is coming to room 2-whatever in the freshman union."

They described him as the man who led the "Dump Johnson Movement," who was now leading the "Dump Nixon Movement," it sounded good to me. I went with 10 other students, and he had a very simple formula, which was to pick one of the presidential candidates that we really liked the most, to go walk precincts for him, to get engaged in really the retail activity of lending your passion, your energy to try to convince others to

elect someone who hopefully could make a difference at that moment on the war. My whole life, I've been very engaged in electoral politics, as a volunteer, as a fundraiser. It's one route to activism. Believe me, there's such a difference from having Paul Sarbaines as head of the to having whoever the hell is there now. His predecessor was Phil Gramm.

You couldn't think of two different people. It's not a perfect system, it's a system that often disappoints. But I just know that the extent that you're willing to work, persuade others by your passion, your energy, that it can make a difference. And I've always said, for me, politics really is composed of, you have a set of beliefs, you're passionate about them, and essentially, how hard are you willing to organize to convince others to come along? I've had a lot of young people work for me over the years, and I always like to put this notion in their head: When you see the civil rights march in Washington in 1963, that great speech where Martin Luther King stood on the Lincoln Memorial steps and said, "I have a dream." At some level, what you see is that march.

What you don't see is literally the years and years of work to organize people, to mobilize people, to move the movement forward, down to those last few days of people who had belief, organizing busloads of people to come in from all over the country. And it was a tipping point in the civil rights struggle. It's one form of activism. Another form of activism is there are a number of organizations in the non-profit sector who are advocates for ideas and for change. And they're not just restricted to investors. And I think you can pick your spot, but there's plenty of places, and generally you'll only be limited by your own energy.

You guys come from sectors, I'd actually like you to talk about that a little bit.

Pope. The one thing I'd add is whatever you do, and I don't think it greatly matters what, do it with someone. We're developing a theory that you can change the world with a pixel on a computer screen. You can get a lot of information with a pixel on a computer screen, but I really don't think you can change the world that way. And you said we're all voters, and I'm going to ask an awkward question: Are we all voters? If you all are, it's wonderful, but young people these days by and large aren't voters. There's been a lot of speculation about why that is, what's wrong with American politics? And I've participated in those tearing-your-hair-out kinds of discussions. But then I read Bob Putnam's book, "Bowling Alone." And it turns out we don't vote just like we don't do all kinds of other things together. It's not really there's something wrong with American politics, there's something increasingly less social about American society.

So, whatever you decide to do, go find at least one other person to do it with. [laughter]

Angelides. I think those are very wise words, because in the end, this is about passion and energy and belief and the extent to which you can move others. When you really get down to it, the art of politics to be successful is believing something and then having the capacity to move someone else. I think that's really the art of what Carl does at the Sierra Club, having a set of beliefs, and how successful he is is defined also by how hard he organizes to achieve that result. What I said today about shareholders is a lot of this problem is us. Here we are in a country where 84 million people own stock. These companies are really ours. What the hell are we doing, whining about how they're behaving? The rules are not very good in terms of shareholders being able to exert influence. They're weak. Shareholder resolutions are non-binding.

If we want to run an alternative slate of directors, it's very hard. But I guarantee you, if shareholders put together a resolution that gets 30%, 40%, 50% of the vote, it's going to affect corporate behavior. This is really in our hands.

Female. Let me tell you two stories of what individuals can do. How many of you know the commitment by British Petroleum, now called Beyond Petroleum to reduce its carbon emissions below what has been required by the Kyoto Protocol? It's a fairly well-known commitment. How many of you know how that came about? It turns out Rodney Chase, the number two at BP, went home one night and said to his 12-year-old daughter, "Come here, give Daddy a hug," and she looked at him and said, "No, your company's dirty." Got him! Really affected him. That's something each one of us has the capacity to do, is to talk to the people who care about us about what we care about.

Rodney went to, then Sir John Brown, and said, "You know, we've got to do something about BP's emissions." And it started a discussion in the company that has led to BP meeting its stated goal of reducing its carbon emissions over a 10-year period in two years. What they didn't tell you is it saved them \$650 million a year doing that. This is one of those examples where doing good really helped them do well.

The second story is from a long time ago, the last time America was in a very unpopular war. The poet, Gary Snyder was sitting in a bar in Tokyo in the '60s, and another American walked in. They fell to talking, both of them being Americans a long way from home. Gary asked the American what he was doing. The American said he was on his way to Saigon to do a study of the Vietnam War. He asked Gary what he thought of the war. Gary said he didn't think much of it, he thought it was a bad idea. The American worked for the US government and had not heard that point of

view before and was somewhat amazed, and stayed up all night talking to Gary, which if you ever get a chance to do, you'll understand why.

And they talked about values and poetry and philosophy and the things that really matter. The American delayed his flight two days to stay talking to Gary. And then he went on, Gary didn't think much of it. A couple years later, he moved back to the Sierras, lived in a place, moved, lived in another place, moved. He got word through the grapevine that some guy was looking for him. The guy had gone to where Gary used to live, and the neighbors had sent him forward. And eventually, the guy just sent word ahead, "I'm the guy you met in that bar in Tokyo. That conversation changed my life. Watch your newspapers." And two weeks later, the Pentagon Papers story broke, the guy was Dan Ellsberg. Sometimes it really matters that you say what matters to you. Sometimes it can change the world.

Female. I think we have time for one more question.

Q. Thank you. Part of our challenge seems to be we've got the questions framed poorly. My name's Jeff Gates, I was counsel to the finance committee for seven years, wrote the federal law in the employee ownership area and the pension area. Those tax incentives in that area are now bleeding the federal budget of \$110 billion a year. It's the third largest fiscal expense we have, crowding out the ability to do health research and development, all those sorts of things. I don't know what the California [unintelligible] part is, but it's very large. The last time wealth and income were this concentrated was in the 1930s. As those amounts of funds and deferred compensation plans grew, so did the disparity in wealth and income. They just absolutely locked step like this.

So, what the Chicago model tells us is invest in Wal-mart. We took it from \$1 billion in sales in 1979 to \$240 billion last year. Analysts tell us now it'll be \$480 billion by 2007. So, we have one family in Arkansas with about \$100-120 billion. Meanwhile, retirees are already saying, "I need help with prescription drugs." So, we're going to do something in Medicare, putting a tax on peoples' jobs. And where are they going to buy the prescription drugs? Wal-mart has 2,500 pharmacies, heading toward probably 6,000 pharmacies. I want to mirror your question. I don't get it. It looks like a good investment, but it's actually undermining the entire purpose of having the fund set aside. Bleeding us on the tax subsidy side and on the back end side by being indifferent about the patterns of wealth and income that come out of it.

I guess I don't get it. So, if you could help me get it, we're here to frame the issue.

Angelides: Actually, our pension fund, we have a very direct correlation in a sense. We should be thinking about it. Which is that, if you think about how we're funded at CALPERS, CALSTERS, true of all public pension funds, we have employee contributions and employer contributions. Employer contributions are taxpayer dollars going into that. So, at one level, you might look at a set of investments, for example, in urban [unintelligible] real estate in California, or inner city investment mortgage money, private equity for business expansion, and make the argument that, in the end, to the extent those produce good risk-adjusted returns, they're great investments, because they do two things: They give us that risk-adjusted return, plus they build the underlying foundation that funds us over time.

You're right. Then you have a reverse set of investments that in fact, you're right, may give us temporal returns but are bleeding out the very base that we depend on for a substantial amount of our ability to meet our obligations in the future. And there is a very direct link, I think.

Q. The current motto is ownership pattern-indifferent. Do you think that is a failing in the system?

Angelides. Say that again.

Q. The Chicago model, it's called, the Law and Economics Model is indifferent about both income and wealth patterns, out the back end. It's interested in having net present value, discounted cash flow. It's a radical redistribution of wealth in my taking. You're taking it from the fiscal side, from peoples' savings, and putting it into a model where singular executives pull out at least \$500 billion, while putting \$1,540 billion in the hands of 400 families as of 2000.

Angelides. Yeah, but the model didn't include its other impacts, you're right.

Q. Forgive me, but does California intend to be, continue to remain indifferent about the ownership and income patterns, or do you think that will shift?

Angelides. Well, I'm not, but do I think our society is? For 35 years now, this society in no serious way has even talked about income disparity. It is the single largest threat to our economic sustainability and our social fabric. In the 1990s in California, while we became the fifth largest economy in the world, of course the median incomes of the poorest 20% fell to \$12,000 a year. The stretch from Stockton to Bakersfield has a higher unemployment rate by five points than any state in the nation. And it will rip us apart. The prison budget has gone from \$400 million in 1982 to \$5.3 billion in this year. I can't answer whether we're going to be indifferent to it. Maybe out of exhaustion from the 1960s and '70s, a sense that the war on poverty, of course which was never fully

prosecuted, was a failure. But it hasn't been center stage in our political discussions in this state. It hasn't even been waiting in the wings. And so the answer of the question is I don't know, but I hope that we bring it back into center stage, and we do talk about what are the diverse strategies we can use to close up that gap of opportunity.

But be clear about one thing: I don't think we can be indifferent now, because we have a president who not only is indifferent to it, but is doing everything in his power to widen that disparity every day. And if we're not willing to stand and fight now, it is a dual strategy of widening the disparity and depleting the public resources that are then capable of dealing with the disparity. And it is really, I mean I've got to say, I admire them for their unashamed, unabashed willingness to move their agenda. Too often, people in my party's response is, it's almost like the poodle that, if you yell at it enough, it'll sit down and shut up. Which is, "We'll give you some of your tax cuts, but we want to just do them a little differently." I think we're at a very critical moment now. I think you asked a good question, are we willing to take that issue on?

Female. On that note, I think we'll adjourn the formal part of this, and let's continue the conversation over wine and hors d'oeuvres up in the Goldberg Room, which is right out this door and just up the steps. So, we'll see you there, and thank you again. [applause]

\*\*\*\*\*END OF FRIDAY 3/14/03 VIDEOTAPE\*\*\*\*\*