poor nations to draw from it to work on projects (and with aid organizations) of their choosing. Or, poor individuals and communities could be given vouchers to use as they saw fit. That would promote more competition among aid groups and give the poor nations a bigger voice in how aid dollars are spent.

Two Koreas Forever?

"Our Other Korea Problem" by Nicholas Eberstadt, in *The National Interest* (Fall 2002), 1615 L St., N.W., Ste. 1230, Washington, D.C. 20036.

Wouldn't it be great if North and South Korea could end their long, tense standoff, allowing the 38,000 U.S. troops stationed in the South finally to come home? Not according to Eberstadt, a scholar at the American Enterprise Institute.

To begin with, he argues, South Korean president Kim Dae-Jung's determined "sunshine policy" toward the totalitarian North Korean regime might lead to a less-than-genuine reconciliation. If North Korea's Kim Jong-il then tried to reunify the peninsula under his own rule, the stage could be set for "a potentially devastating conflict in Korea," which might also involve the United States and other regional powers.

"But even presuming genuine rapprochement between North and South and some measure of stability in Korea," Eberstadt says, a U.S. pullout "would still create a security vacuum and invite a latter-day version of the Great Game of realpolitik the Pacific powers played so roughly in the region a century ago." Particularly worrisome to many of those powers is the possibility of a more assertive Japan.

If the U.S. forces in South Korea were withdrawn, or even transformed into a neutral peacekeeping force while the two Koreas moved toward unification, only one U.S. fighting force would remain on East Asian soil: the 40,000 troops in Japan. That would greatly increase pressure in Japan—where the U.S. base in Okinawa is already a sore point—for a reduced American presence.

In public, China and Russia favor a reduced U.S. presence in East Asia, but according to Eberstadt they are privately ambivalent about an American withdrawal from South Korea and an end to "the U.S.-dominated security order in East Asia." It's hard for Eberstadt to see who would benefit, except for North Korea.

South Koreans, however, seem to see both the military threat from the North and the need for a U.S. garrison as diminishing. Forty-two percent of South Koreans surveyed in 2000 wanted the U.S. presence reduced; 15 percent wanted it ended.

Much may depend on what happens this December, when South Koreans go to the polls to choose a new president. Roh Moo-hyun, the candidate of Kim's ruling party, called as recently as 1990 for the ouster of U.S. forces. His opponent, Lee Hoi-chang, favors a tougher stance toward North Korea. In parliamentary by-elections held this August, Lee's party won 11 of 13 seats in the National Assembly, gaining control of the 273-member body—a major defeat for the lame duck Kim and a possible sign of what's to come for his "sunshine policy."

Economics, Labor & Business

Seeds of Scandal

"Perverse Incentives" by Edward Chancellor, in *Prospect* (June 2002), 4 Bedford Sq., London WC1B SRD, England.

Plain old greed may go a long way toward explaining the past year's rash of spectacular corporate meltdowns and accounting scandals, but they also have their genesis in a flawed idea.

That idea is shareholder value, a product of the early 1980s, when American investors finally lost patience with a long period of underperformance by U.S. corporations, writes Chancellor, assistant editor of Britain's *Breakingviews* financial commentary service.

After the Great Depression, "the priorities of leading businessmen shifted away from maximizing the profit of their companies, or their own fortunes; other goals, such as stability, continuity, and responsibility toward employees predominated." In 1984, Texas oil tycoon T. Boone Pickens upended the old order when he launched a takeover attempt of giant Gulf Oil, backed by innovative high-yield bonds floated by financial wizard Michael Milken. Pickens and later raiders promised to unlock the hidden values neglected by complacent "corpocrats."

Big business responded with the concept of shareholder value. The idea was to make managers more responsive to the interests of shareholders (who are, after all, the corporation's owners). Chancellor sees several consequences: "a focus on the core business; the use of financial engineering to reduce the corporate cost of capital; an emphasis on the business's ability to generate cash; the linking of managers' interests to those of outside shareholders through the use of executive stock options."

While there were benefits to the new approach, Chancellor believes many of them have been exaggerated. Did the reformed corporations invest capital more efficiently? Return on equity rose from 17 percent to 22 percent during the 1990s, suggesting that they did. But corporations took on piles of new debt in the 1990s (partly to buy back shares and boost stock prices). Add debt to equity, and the returns shrink to 13 percent. In this category, as in others, Chancellor argues, corporations actually did better in the 1960s.

As we now realize, moreover, "the generous compensation of top executives with stock options has created an overwhelming incentive to manipulate earnings." It has had other effects: Unlike shareholders, options owners don't benefit from rising dividends, but they do benefit from rising share prices. "In 1995, the amount of money spent on [stock] buybacks exceeded outlays on dividends for the first time in history," Chancellor notes. On top of that, corporations with their eyes on short-term changes in the stock market made many bad long-term investments. The markets cheered as European telecommunications companies paid billions for licenses to operate new 3G mobile phone networks—never mind that demand was unknown and the technology untried. Today, many of those companies are basket cases. "Markets are constantly testing and discarding new ideas," Chancellor says. "The corporate world moves, or should move, at a much slower pace."

How to get corporations moving slowly again? Less emphasis on profits and shareholder value would help. "Great managers are motivated by the pride they take in their work" rather than by money, Chancellor thinks. Paraphrasing management expert Peter Drucker, he concludes that profit "is not the rationale of a business, just the test of its validity."

Strategic Dithering

"Tired of Strategic Planning?" by Eric D. Beinhocker and Sarah Kaplan, in *The McKinsey Quarterly* (2002, No. 2), available online at *www.mckinseyquarterly.com*.

In most big corporations plotting corporate strategy is a major production. Most have a top "strategy" executive with the usual bureaucratic accouterments, and put themselves through that elaborate and time-consuming annual ritual, the company-wide "strategic planning process." Yet in this respect, private-sector bureaucracies appear no more effective than that oft-derided administrative colossus, the federal government. Even CEOs and other high-level executives are cynical about the process. In reality, strategy is still made around the water cooler. "There is a lot of dancing, waving of feathers, and beating of drums" during the reviews, one executive told Beinhocker and Kaplan. "No one is exactly sure why we do