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ECONOMIC VIEWPOINT

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Homeland Security Could Really Shake Up Business

The war on terror will mean new government-business partnerships--plus new standards in privacy, financial regulations, and much more

As the first anniversary of the September 11 attacks approaches, it's worth considering how the war on terrorism has changed the relationship between business and government. After all, at least 85% of the nation's infrastructure--ports, bridges, office buildings, hospitals, telecommunications systems, and energy grids--is in private hands. Now as never before, the U.S. will be forced to protect those assets against a foreign enemy. This challenge will require a level of public-private cooperation not seen for decades--and it could reverse the momentum of the 1980s and '90s toward freer markets and smaller, more hands-off government. Should we worry about this shift?

Recall the growth of a military-industrial complex during the Cold War. Yes, there were some benefits: The National Science Foundation and NASA were created, for example, and national security was used to promote big gains in transportation systems and education. There were downsides, too: Many companies profited not because they were highly efficient but thanks to cozy corporate ties to the Pentagon. The sprawling defense industry fed a corporate culture of command-and-control management systems and large bureaucracies. Export controls mushroomed, even on readily available technology.

In today's war on terror, hundreds of companies will once again be enmeshed in the business of winning and servicing new government contracts for security-related technology. In addition, Washington and Corporate America will need to work together on many new fronts. The Bush Administration wants companies to share with Uncle Sam sensitive information relating to their security vulnerabilities. But business needs guarantees that this data will be protected from public dissemination and shareholder lawsuits. Washington wants business to develop new technology

to identify potential terror threats, but companies will require legal immunity in case new innovations are installed but fail to do the job completely. The government is encouraging corporations within the same industry to coordinate contingency planning, but the private sector will need antitrust exemptions for this to happen.

The U.S. Treasury's intense focus on seizing terrorists' funds requires unprecedented documentation from every kind of financial institution, on every conceivable kind of transaction. A more sensible middle ground for monitoring and reporting has to be reached between Washington and banks, brokerage firms, and credit-card companies. The government wants to tighten immigration controls, but it needs to find a way to work with business so as not to cut off the inflow of crucially important talent. The Administration is conducting comprehensive inspections of imported cargo, but cooperation between the U.S. Customs Service and transportation companies will be critical to prevent disruption of just-in-time global supply management.

No one knows to what extent a broad public-private partnership will emerge. David J. Rothkopf, CEO of Intellibridge Corp., a Washington (D.C.) information provider to the defense industry, says companies will have to become more involved in coordinated planning, threat assessment, and cooperative research. Joseph J. Grano, CEO of UBS PaineWebber Inc. and chair of President Bush's new Homeland Security Advisory Council, suggests the need for new and explicit protocol agreements for business-government collaboration in individual industrial sectors. C. Michael Armstrong, AT&T's CEO and chair of the Business Roundtable's task force on domestic security, believes there is a need for a far more effective institutionalized system of communications between top business and government leaders on homeland security matters.

In separate interviews, Grano and Armstrong said that new ties between business and government can work without stifling productivity, innovation, or crucial market forces. Neither voiced concern about overregulation, incestuous ties between CEOs and the Pentagon, or regression to a more rigid style of corporate management. I, too, am cautiously optimistic that a balanced and effective public-private partnership can emerge without setbacks to private enterprise. In part, that's because of global pressures for U.S. companies to remain highly competitive. I also take comfort in the checks and balances at play in the clash of contending American political

interests. But it is a close call.

Regulation already is expanding in accounting, corporate governance, telecommunications, finance, and energy--largely due to the corporate corruption scandals. As homeland security budgets soar, a new government gravy train could subsidize corporate inefficiencies. If there is a second attack, Washington's sway over business--under pressure to proceed to wartime footing--would likely increase beyond anything now imaginable. When Congress returns after Labor Day and establishes the new Homeland Security Dept., these issues should be front and center.

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