



The managers of public companies serve at least three masters: their shareholders (number one); their customers; and their employees. The conflicts of interest that inevitably arise from this arrangement are unavoidable. But how can you put shareholders' interests first and not shortchange the customers or the employees?

Several large publicly-held companies helped lead the country to its biggest financial crisis since the Great Depression. Yet, thanks to the corporate veil and limited liability, none of the executives has been held either financially or legally accountable.

In the life insurance industry, demutualization, which was so tempting during the 1990s, yielded bitter fruit in the 2000s. Public ownership is a misnomer, and the governance model for public companies is broken. Enron taught nothing. Sarbanes-Oxley was ineffective. As for the SEC and FINRA, the best that can be said is that they are hopelessly undermanned and outgunned.

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**Hybrid institutions (schizophrenic governance).** Hybrid structures like Fannie Mae and Freddie Mac or Medicare sound appealing at first because they're more politically acceptable to establish than all-private or all-public institutions. But they're too vulnerable to moral hazard to succeed in the long run.

When the country wants to provide a needed public service (like subsidized health care for seniors) but the government doesn't want to crowd out private enterprise, it sets up a hybrid service like Medicare, where the public sector pays private medical providers. But moral hazard quickly creates the temptation, among the providers of care, the users of care, and the insurers, to milk the system. The inevitable result: runaway costs.

When the government wants to subsidize housing but doesn't want a huge obligation on its own balance sheet (like millions of home mortgages), it insures the obligations of a private stock company, like Fannie Mae. What eventually follows, as we saw in the financial crisis, is moral hazard, leading to the privatization of profits and the socialization of costs.

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These self-interfering problems, which hide in plain sight, are so entrenched, so integrated with daily life, that we can barely recognize them, let alone begin to solve them. It requires a flight of utopian fantasy even to imagine what an alternative reality might look like, let alone agree on a plan for realizing it. The hope of reaching any public consensus on anything, these days, seems naïve.