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Ideologies serve to rationalize and legitimize our economic and political actions, and they can exert a significant influence over the character of our economic systems and our societies. Consider such ideological museum pieces as the divine right of kings, or the communist model of radical social equality and the abolition of private property, or the supposed racial purity and superiority of the Aryan “master race” in Nazi Germany. (Unfortunately, the latter notion still inspires a dangerous fringe constituency.) Or consider the epic political struggle between capitalism and socialism in the nineteenth and twentieth centuries. Capitalism is rooted in the idea that private citizens should own and control the “means of production” in a society. The modern version of socialism (there have been a number of variations over time) has held that governments, on behalf of the citizenry, should be the owners/controllers of the economy in the public interest. On the whole, capitalism has prevailed in this ideological (and political) contest. But now there is an equally significant conflict underway between two radically different models of capitalism, and the outcome could be a game-changer for liberal democratic societies. To understand what is at stake, we need to start with some biological fundamentals: What is the purpose of an organized society, and an economy? To a biologist, the basic, continuing, inescapable challenge for all living organisms is survival and reproduction. Life is quintessentially a “survival enterprise,” and every organized cooperative society, whether it be in social insects or humankind, is at bottom a “collective survival enterprise.” The fundamental purpose of a human society, therefore, is to provide for the basic biological needs of its members, and of the society as a whole over time. Biological survival is a prerequisite for any other, more exalted objectives. Our basic survival needs – some 14 in all – define what should be the priorities for every human society, and they lie at the core of what we mean by the “common good” and the “public interest.” In the classic, idealized capitalist model, however, an organized society is viewed as being fundamentally a marketplace where goods and services are exchanged in arms-length transactions among autonomous individual “purveyors” who are independently pursuing their own narrow self-interests. Our relationships to one another are strictly contractual. This hypothetical model is in turn supported by the assumption that our motivations can be reduced to the efficient pursuit of our varied individual “tastes and preferences” – as the economists like to say. A corollary of this is that there should be an unrestrained right to private property and the accumulation of wealth, because (in theory) this will aggregate the capital needed for further economic growth and will ultimately benefit society as a whole. The foundational expression of this model, quoted in virtually every introductory Economics 101 textbook, is Adam Smith’s “invisible hand” metaphor in The Wealth of Nations (1776). AsSmith explained: “By pursuing his own self-interest… [a man] frequently promotes that of the society more effectively than when he really intends to promote it.” The pioneering economists who followed in Adam Smith’s footsteps in the nineteenth century embellished his core vision in various ways. One of the most important of these early economists, Léon Walras, claimed that the forces of economic supply and demand, if left alone, would work to ensure the efficient use of resources, full employment, and a “general equilibrium.” In other words, competitive free markets can be depended upon to be self-organizing, and self-correcting, and will ultimately produce the “greatest good for the greatest number” — the Holy Grail of classical utilitarian political theory. In other words, unrestrained personal selfishness will also (magically) serve the common good. The modern-day version of this model, commonly known as “shareholder capitalism,” informally dates from a landmark article in 1970 by the Nobel Prize winning University of Chicago economist Milton Friedman, who went a giant step beyond the basic capitalist model. “There is one and only social responsibility of businesses,” Friedman declared, “to increase profits.” Anything else is “unadulterated socialism.” Capitalism must therefore have a single-minded focus on profits and the interests of shareholders over any other stakeholders, or society as a whole. Shareholder capitalism even rejects the very idea of a public interest or a common good. Like its classical predecessor, shareholder capitalism justifies its economic bias by claiming that, in the end, everyone will benefit. In a modernized update to Adam Smith’s “invisible hand” metaphor, it is said that a rising tide will lift all boats — or that the benefits will “trickle down.” As many social critics have stressed over the years, capitalism does not actually work according to this idealized model (sometimes derisively referred to as “utopian capitalism”), and neither do societies. The achievements of capitalism at its best are undeniable. An open, innovative, competitive economic system can play a vital role in serving our basic needs, and it excels at rewarding personal and economic achievements. However, capitalism can also become a rigged game that is far removed from the idealized model of mutually beneficial, win-win exchanges and optimal outcomes for all concerned, much less the principles of equity, or merit. Among other things, the vast differences among us in wealth, power, and information exert a highly distorting influence in the marketplace, and in our economic and political systems. In the two decades that followed the famous Friedman article, the ecosystem for American corporations was radically altered by a tidal wave of foreign competition, government deregulation, and the rise of predatory corporate raiders. Shareholder capitalism gave our large corporations a rationale for outsourcing, undercutting labor unions, squeezing worker wages, reducing fringe benefits, shutting factories, abandoning communities, avoiding taxes, resisting environmental protections, and (in some cases) even opposing the very idea of global warming. Not to mention polluting the environment and becoming cynical pushers of addictive opioid drugs. Meanwhile, profits (and stock prices) have skyrocketed. Needless to say, the combined results have been transformative. American workers have seen a dramatic decline in their standard of living and quality of life (and economic security) since the 1980’s. Meanwhile, 95% of the increase in personal incomes in recent years has gone to the top 1% of earners. The top 10% now take home about half the total national income and own 89% of all publicly traded stocks. CEO compensation has also ballooned. In the 1940s, CEO’s averaged some 20 times more income than their workers. These days, it’s 250-350 times greater, or more. Meanwhile, our public infrastructure has been deteriorating and our welfare safety net has been seriously weakened. These outcomes, as well as our growing environmental crisis, have ignited the idea of returning to a more socially responsible model of capitalism. Although it’s now mostly forgotten, during the first two decades after World War II, when there was still a carry-over of wartime patriotism and a strong sense of community in this country, large American corporations commonly practiced a “good neighbor” policy, and their CEO’s were viewed as “corporate statesmen.” Managers and boards of directors were highly attuned to maintaining good public relations and keeping their workers happy. As the chairman of Standard Oil of New Jersey in 1951, Frank Abrams, put it: “The job of management is to maintain an equitable and working balance among the claims of the various directly interested groups… stockholders, employees, customers, and the public at large.” Today this model goes under the heading of “stakeholder capitalism.” The basic idea is that everyone who has an interest, or stake in a business firm – managers, workers, sub-contractors, suppliers, customers, shareholders, the government, and, of course, society as a whole – should have an influence (formal or informal) over its governance and behavior – and have a right to receive a fair share of the benefits. Moreover, an organized society is not simply a marketplace. It is a vast cooperative effort devoted primarily to meeting the basic needs of its citizens. The interests of the private sector must ultimately be subordinated to this overarching collective purpose. Stakeholder capitalism would still provide ample rewards for merit, but this would be outweighed by our obligation to serve the common good. In a very real sense, stakeholder capitalism splits the difference between classic capitalism and socialism, and it has recently become a hot topic in academic journals, and in the media. Perhaps most significant, the influential Business Roundtable released a statement a few weeks ago, endorsed by nearly 200 of this country’s leading corporate CEOs, that called for a shift from shareholder capitalism to a “fundamental commitment to all of our stakeholders.” Another hopeful sign isthe recent announcement by Laurence Fink, the CEO of BlackRock – by far the world’s largest investment house, with some $6.3 trillion under management – that henceforth it would require its clients to be socially responsible. “Society is demanding that companies, both public and private, serve a social purpose,” he wrote. It is worth noting that there has also been some pushback against this idea. For instance, the influential British business magazine, The Economist, loudly disagreed with the Business Roundtable. “This new form of collective capitalism [sic] will end up doing more harm than good. It risks entrenching a class of unaccountable CEOs who lack legitimacy. And it is a threat to long term prosperity.” This is in fact a strawman, a caricature, not to mention being flatly wrong. The post-war era of “corporate statesmen” was one of the most dynamic and fast-growing periods in our history. It seems The Economist has forgotten about its own customary reliance on “competition” and the marketplace to preserve the vitality capitalism. A far greater “threat” to our future is our growing environmental crisis and our ever-increasing extremes of wealth and poverty, which can destroy a state. Plato called it the “war” between the rich and the poor. Although some large U.S. corporations these days have been voluntarily taking steps to become more stakeholder friendly, the challenge, as many observers have noted, is how to make it work more broadly and effectively. Stakeholder capitalism is preeminently concerned with changing hearts and minds in the business world. How do you engineer a change in the management values and boardroom behavior of a large company in a highly competitive marketplace without undermining its efficiency, flexibility, and profits – and its stock prices? I discuss some of these “how to” issues in my forthcoming new book, Superorganism: A New Social Contract for Our Endangered Species. To repeat, ideologies matter — a lot. They create norms, and expectations, and social pressures that can shape our behavior, and our public policies. Stakeholder capitalism is more than an idea whose time has come. It’s an idea whose revival is long overdue, and the current alternative looks increasingly perilous. Recent high profile investigations into greenwashing, the ongoing war in Ukraine and soaring energy costs have prompted questions as to the purpose and value of ESG, and more broadly, stakeholder capitalism. Some have criticized stakeholder capitalism and ESG as “woke” politics, a threat to shareholder interests and a distraction for boards and management. Others have questioned whether stakeholder capitalism and ESG can straddle “doing good” and “doing well.” Uncertainty also abounds as to what ESG truly means. We believe stakeholder capitalism and ESG are fundamentally frameworks to enhance the sustainable long-term value of a corporation. Both are tools for boards and management to guide business strategy, risk management and capital allocation in a manner that best serves the financial well-being of a business, and in turn, the interests of shareholders. Time and again, stakeholder and ESG considerations have driven positive societal outcomes (climate and DEI being among the examples). But stakeholder capitalism and ESG, as we and many investors understand them, do not lead with a political or moral agenda. The north star of stakeholder capitalism and ESG is driving sustainable long-term value creation. Stakeholder capitalism is neither new nor a niche view. Since the Great Recession, acceptance of and reliance on the Friedman doctrine of shareholder primacy has been widely eroded, as a growing consensus of business leaders, economists, investors, lawyers, policymakers and important parts of the academic community have embraced stakeholder capitalism as the key to sustainable, broad-based, long-term global prosperity. Stakeholder capitalism recognizes that corporations do not exist in a vacuum, but rather each relies on a multitude of stakeholder contributions and interests from employees, customers, suppliers, communities and, more broadly, society and the environment at large in order to operate effectively and create value. Since the adoption by the International Business Council of the World Economic Forum of The New Paradigm of Corporate Governance in 2016, stakeholder capitalism has been adopted in the 2020 Davos Manifesto, the Business Roundtable, the British Academy’s Future of the Corporation Project, the Enacting Purpose Initiative, the UK Financial Reporting Council and the Investor Stewardship Group. To reiterate, we summarize stakeholder capitalism as follows: The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to ensure its success and grow its value over the long term. This requires consideration of all the stakeholders that are critical to its success (shareholders, employees, customers, suppliers and communities), as determined by the corporation and its board of directors using their business judgment and with regular engagement with shareholders, who are essential partners in supporting the corporation’s pursuit of its purpose. Fulfilling this purpose in such manner is fully consistent with the fiduciary duties of the board of directors and the stewardship obligations of shareholders. The pandemic and its economic and social impacts have only generated further debate on corporate purpose and accelerated the shift to stakeholder governance. More than two years on, we continue to be reminded that businesses exist in a symbiotic relationship with their key stakeholders: once largely invisible, suppliers and supply chains have revealed themselves as the backbone of the global economy, the competition for talent remains as heated as ever and carefully built reputations have crumbled in step with missteps in customer, employee and community relationships. When viewed from the lens of promoting sustainable long-term value creation, ESG also becomes easier to define. Some companies have already publicly disclosed that they will find it increasingly challenging to sustain growth and outperform peers without addressing issues such as the risks associated with climate change, human capital pressures, ongoing supply chain risks and cybersecurity vulnerabilities—all of which have been commonly grouped as ESG issues, but which we believe are each separately worthy of board and management attention where they (along with other issues that do not ostensibly appear on the balance sheet) have the potential to materially impact the bottom line. Separately, many companies have recognized the importance of measuring and disclosing specific metrics intended to enable comparisons, by the companies themselves, mainstream investors and other constituencies, of performance on various ESG factors. Different ESG issues will have different impacts on different companies. It is for these reasons that boards and management need to take the lead to identify which subset of issues is material to their business, including engaging the perspectives of their stakeholders. Stakeholder capitalism does not require every company to outperform on every ESG issue. Priorities should be identified, reflecting the long-term financial interests of the business. Corporate action that gives consideration to stakeholder interests and ESG issues, in our view, will be fully protected by the business judgment rule, so long as decisions are made by non-conflicted directors acting upon careful consideration and deliberation. In these uncertain macroeconomic and geopolitical times, and in the face of growing societal divisions, stakeholder capitalism and ESG will be critical tools for value creation. Companies that adopt a more thorough and long-term perspective to value creation will be better positioned to unleash the full power and potential of free market capitalism. Stakeholder capitalism is a system in which corporations are oriented to serve the interests of all their stakeholders. Among the key stakeholders are customers, suppliers, employees, shareholders, and local communities. Under this system, a company's purpose is to create long-term value and not to maximize profits and enhance shareholder value at the cost of other stakeholder groups. Supporters of stakeholder capitalism believe that serving the interests of all stakeholders, as opposed to only shareholders, is essential to the long-term success of any business. Notably, they make the case for stakeholder capitalism being a sensible business decision in addition to being an ethical choice. Stakeholder capitalism proposes that corporations should serve the interests of all their stakeholders, and not just shareholders.Stakeholders can include investors, owners, employees, vendors, customers, and the general public at large.The focus is on long-term value creation, not merely enhancing shareholder value.Historically, considering all stakeholders was the norm in the U.S. until Milton Friedman argued that corporate executives are only beholden to shareholders.Supporters of stakeholder capitalism today believe this priority on all entities should replace shareholder primacy. Investopedia / Michela Buttignol The debate about the role and responsibilities of businesses in society has produced various theories throughout history. Proponents of stakeholder capitalism, like economist Joseph Stiglitz, believe it should replace shareholder primacy as a principle of corporate governance. Shareholder primacy, or the idea that a corporation is only responsible for increasing shareholder value, was made popular by Nobel prize-winning economist Milton Friedman in the 1970s. He argued that executives work for the owners (shareholders) and the only social responsibility of a business is "to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." His writings on the theory were so influential they helped shape corporate governance laws in the U.S. This period saw executive and employee stock-based compensation explode in the country as the interests of top executives were being aligned with shareholders, who were increasingly perceived as being the most important stakeholders. There was also a rise in hostile takeovers, with corporate raiders neglecting the well-being of non-investor stakeholders. In 1997, the association Business Roundtable began endorsing principles of shareholder primacy. The tide has been shifting, however, and companies and business leaders are now calling for a return to stakeholder capitalism, which is currently prevalent in Europe and was formerly the norm, even in the U.S. Despite the comparisons to shareholder-focused companies, investors themselves may lead the charge to institute stakeholder capitalism. Investors can try to use their shares in a company to influence its behavior, encouraging it to be more heedful of the welfare of all stakeholders. Known as shareholder advocacy, this is done through dialogue or shareholder resolutions. Alternatively, investors use negative screening to avoid companies that harm other stakeholders, which is known as socially responsible investing (SRI), or they practice impact investing by only buying shares in companies whose strategies have a positive impact on society or the environment. In August 2019, Business Roundtable released a new "Statement on the Purpose of a Corporation" which said all its member companies share a fundamental commitment to all their stakeholders. “The American dream is alive, but fraying,” said Jamie Dimon, chair and CEO of JPMorgan Chase & Co. (JPM) and chair of Business Roundtable, in a statement. “Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernized principles reflect the business community’s unwavering commitment to continue to push for an economy that serves all Americans.” Billionaire philanthropist and Salesforce.com Inc. (CRM) co-founder Marc Benioff attributes his company's impressive financial returns to its policy of valuing all stakeholders equally: "I really strongly believe that capitalism as we know it is dead… that we’re going to see a new kind of capitalism and that new kind of capitalism that’s going to emerge is not the Milton Friedman capitalism that’s just about making money." — Marc Benioff, Chair and co-CEO of Salesforce The World Economic Forum's (WEF) 50th Annual Meeting in Davos in 2020 was focused on stakeholder capitalism with the central theme "Stakeholders for a Cohesive and Sustainable World." Professor Klaus Schwab, founder and executive chair of the WEF and a long-time supporter of stakeholder theory, said, "People are revolting against the economic ‘elites’ they believe have betrayed them, and our efforts to keep global warming limited to 1.5°C are falling dangerously short." The WEF updated its "Davos Manifesto," a set of principles that underpin the event, for the first time in over 40 years. It now plainly states at the top, "the purpose of a company is to engage all its stakeholders in shared and sustained value creation" and says companies should have zero tolerance for corruption, uphold human rights, and pay their fair share of taxes. The organization and the Big Four accounting companies also developed a set of universal metrics and disclosures that companies can include in their annual reports to measure their social and environmental performance. "By aligning companies with asset owners and asset managers through common, limited, and meaningful metrics, we will ensure sufficient capital is available to meet the Sustainable Development Goals," said Brian Moynihan, CEO of Bank of America and WEF International Business Council (IBC) chair. During a panel discussion at Davos 2020, McKinsey & Company Global Managing Partner Kevin Sneader said economist Adam Smith clearly said the responsibility of the business person is to give to the community and enrich everyone. "And I think we lost our way a bit in forgetting that," he added. "Every CEO needs to sit down and come to grips with the fact that if I don’t have teachers to teach the children of my employees, then the best employees aren’t going to come work for our company," said Cisco Chair and CEO Chuck Robbins during the same session. "We have to ensure as businesses that we have strategies to apply our capabilities, our skill sets, our employee base, and our financial resources to actually solve these issues." Stakeholder capitalism can either be an ideology adopted by leaders at individual companies or a model enforced by governments through laws and regulations. Some of the ways companies can independently demonstrate a commitment to stakeholder capitalism: Paying fair wagesReducing the CEO-worker pay ratioEnsuring safety in the workplaceLobbying for higher tax rates and avoiding tax loopholesProviding good customer serviceEngaging in honest marketing practicesInvesting in local communitiesPreventing environmental damage There is no defined set of expectations for companies that make such a commitment. However, JUST Capital, an independent research nonprofit, surveyed 4,000 Americans on what issues they believe U.S. companies should prioritize most. The top priorities of corporations, according to the respondents, should be paying a fair wage, acting ethically at the leadership level, paying a living wage, providing benefits and work-life balance, providing equal opportunity, and making beneficial products. "Stakeholder capitalism is a vow to do business in service of all stakeholders, rather than just profits and returns. Shareholders are of course important, but it's vital that companies also consider workers, communities, the environment, and more when defining success – especially because doing so has demonstrated benefits not just to society, but also to the bottom line. This approach is neither status quo nor abandoning capitalism altogether. It's simply recalibrating the system to take a deeper view of business, and ensure an economy that works for all." - Paul Tudor Jones, founder of Tudor Investment Corporation and The Robin Hood Foundation, Co-Founder and Chair of JUST Capital According to a Stanford University study based on a survey of over 200 CEOs and CFOs of companies in the S&P 1500 Index, most executives believe they are already doing a satisfactory job of incorporating stakeholder concerns into their corporate planning and not receiving sufficient recognition. Only 50% believe their stakeholders understand what the company does to meet their needs. This figure is 33% and 10% when the question is about institutional investors and the media, respectively. Critics of stakeholder capitalism tend to believe corporate leaders are self-serving and would enrich themselves if allowed to control the purpose and role of companies. An emphasis on shareholders, it is believed, keeps executives adequately restricted and focused on increasing profits. This is said to ensure companies do not become stagnant or uncompetitive. Critics also argue that shareholder capitalism is the reason public companies in the U.S. have immense value versus public companies in other regions like Europe where stakeholder theory is more popular. A stakeholder is a person or entity who has a vested interest in a company in that they can either affect or be affected by a business' operations and performance. In other words, they have some stake in the business or its outcomes, directly or indirectly. Stakeholders in a corporation can be classified as either internal or external. Internal stakeholders include a company's executives, employees, board of directors, and shareholders. External stakeholders are a company's creditors, customers, vendors, community, and the environment. Shareholders are but one important type of stakeholder: they are not the only stakeholders. Examples of other stakeholders include employees, customers, suppliers, governments, and the public at large. In recent years, there has been a trend toward thinking more broadly about who constitutes the stakeholders of a business. Stakeholder capitalism states that corporations must account for the best interests of all of their stakeholders, and not only their equity shareholders. While many still promote the idea that maximizing shareholder value is a company's primary objective, this ignores the other important people and organizations that have a stake in that company, such as its workers, customers, and the broader community. Shareholder value is a short-term goal that may not align with the longer-term goals of the other stakeholders. Therefore, stakeholder capitalism is more about long-term management strategies that can promote better and greener business practices. This week, the World Economic Forum planned to hold its annual meeting in Davos, but thanks to Omicron, we’ve received another six-month reprieve from lectures by elite “global leaders” and the collectivist policies they promulgate. This year’s meeting, now deferred to mid-2022, will focus on how to accelerate “stakeholder capitalism” and its cousin ESG (short for environmental, social and governance), two related movements that diminish economic freedom, the key to prosperity, and push us closer towards a new brand of socialism.What do these two terms actually mean? The definitions are fluid by design, but broadly speaking, according to stakeholder capitalism, businesses should not purely focus on maximizing returns to owners but rather use the resources of companies to solve social problems, thus maximizing benefits to various “stakeholders” (i.e. their employees, customers, suppliers, communities and countries). ESG remains a subjective concept used for a wide range of causes from climate policies to “diversity” initiatives. There are more than 600 ESG reporting frameworks in use today, many of which conflict with one another.The vague nature of the ESG framework raises a few fundamental questions such as which social and stakeholder “ends” to maximize—how should business leaders and boards of directors balance all of the causes and interests of different stakeholders? And how do boards of directors evaluate how effectively CEOs maximize social or stakeholder welfare, since the preferences and demands of stakeholders often conflict? In this context, a CEO can claim almost anything creates stakeholder value for some groups.More importantly, economic freedom and market forces already address most of the issues raised by ESG and stakeholder capitalism proponents. Any successful business, small or large, must account for the interests of its employees, customers, investors and the communities where it operates. Businesses that fail to do so are not as successful or get weeded out in competitive environments. This is one of the great virtues of capitalism that proponents of stakeholder capitalism often overlook.Adam Smith, the 18th century philosopher and founder of modern economics, noted the benefit that individuals acting in their own self-interest can have on society. “It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner,” he wrote, “but from their regard to their own interest.” Simply put, businesses and entrepreneurs can only succeed by benefiting their customers—unless granted special treatment by government.The quality of food and level of service we receive from our favourite restaurant are not the result of a kind act by its owner but rather the owner’s pursuit of success. By caring for their employees (by paying competitive wages and benefits) and their communities (via sponsorships and other local initiatives), businesses and entrepreneurs set the foundation for success—satisfying customer wants and needs.The same goes for Kevin Johnson at Starbucks, Satya Nadella at Microsoft, Tim Cook at Apple or any other successful business leader. All should focus on maximizing returns to owners by providing customers with great products and services at a price they’re willing to pay with great service and continuous innovations. Incidentally, many of those “owners” are pension funds, which means it’s the savings of regular workers.If we as a society want better social outcomes, including greater economic growth, better living standards, more happiness, greater income mobility and better environmental outcomes, then as the research clearly shows, we should primarily rely on markets to make economic decisions. In other words, we need more good old capitalism, which relies on the bottom-up forces of workers, entrepreneurs, investors, business owners and families making decisions about where to invest their labour, savings and entrepreneurial energies. Not more top-down regulations dictated by unaccountable politicians, bureaucrats and interest groups.Finally, it’s worth remembering that ESG and stakeholder capitalism are really nothing new—they used to be called Corporate Social Responsibility (CSR) and Milton Friedman warned against it 50 years ago. “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible,” he wrote. “If businessmen are civil servants rather than the employees of their stockholders then in a democracy they will, sooner or later, be chosen by the public techniques of election and appointment.”Words that couldn’t be truer today.The ESG and stakeholder capitalism movements will ultimately see governments and unelected bodies such as the Canadian Securities Administrators and special-interest organizations such as former Bank of England governor Mark Carney's Glasgow Financial Alliance for Net Zero pressure, and if necessary, force businesses to choose the “appropriate” ends for businesses to achieve. In many ways, these movements are simply different approaches to socialism—instead of governments owning the factors of production and commanding heights of the economy, ESG and stakeholder capitalism use the regulatory state (government) to control businesses for their own political and special-interest ends.At a time when global elites are justifying mass social change in the name of public health and a more “equitable” future, it’s time to recognize the socialist nature of their arguments and the inevitable stagnation and increased poverty it will impose on citizens wherever it takes root.

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On the whole, capitalism has prevailed in this ideological (and political) contest. But now there is an equally significant conflict underway between two radically different models of capitalism, and the outcome could be a game-changer for liberal democratic societies. To understand what is at stake, we need to start with some biological fundamentals: What is the purpose of an organized society, and an economy? To a biologist, the basic, continuing, inescapable challenge for all living organisms is survival and reproduction. Life is quintessentially a “survival enterprise,” and every organized cooperative society, whether it be in social insects or humankind, is at bottom a “collective survival enterprise.” The fundamental purpose of a human society, therefore, is to provide for the basic biological needs of its members, and of the society as a whole over time. Biological survival is a prerequisite for any other, more exalted objectives. Our basic survival needs – some 14 in all – define what should be the priorities for every human society, and they lie at the core of what we mean by the “common good” and the “public interest.” In the classic, idealized capitalist model, however, an organized society is viewed as being fundamentally a marketplace where goods and services are exchanged in arms-length transactions among autonomous individual “purveyors” who are independently pursuing their own narrow self-interests. Our relationships to one another are strictly contractual. This hypothetical model is in turn supported by the assumption that our motivations can be reduced to the efficient pursuit of our varied individual “tastes and preferences” – as the economists like to say. 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One of the most important of these early economists, Léon Walras, claimed that the forces of economic supply and demand, if left alone, would work to ensure the efficient use of resources, full employment, and a “general equilibrium.” In other words, competitive free markets can be depended upon to be self-organizing, and self-correcting, and will ultimately produce the “greatest good for the greatest number” — the Holy Grail of classical utilitarian political theory. In other words, unrestrained personal selfishness will also (magically) serve the common good. 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Meanwhile, 95% of the increase in personal incomes in recent years has gone to the top 1% of earners. The top 10% now take home about half the total national income and own 89% of all publicly traded stocks. CEO compensation has also ballooned. In the 1940s, CEO’s averaged some 20 times more income than their workers. These days, it’s 250-350 times greater, or more. Meanwhile, our public infrastructure has been deteriorating and our welfare safety net has been seriously weakened. These outcomes, as well as our growing environmental crisis, have ignited the idea of returning to a more socially responsible model of capitalism. Although it’s now mostly forgotten, during the first two decades after World War II, when there was still a carry-over of wartime patriotism and a strong sense of community in this country, large American corporations commonly practiced a “good neighbor” policy, and their CEO’s were viewed as “corporate statesmen.” Managers and boards of directors were highly attuned to maintaining good public relations and keeping their workers happy. As the chairman of Standard Oil of New Jersey in 1951, Frank Abrams, put it: “The job of management is to maintain an equitable and working balance among the claims of the various directly interested groups… stockholders, employees, customers, and the public at large.” Today this model goes under the heading of “stakeholder capitalism.” The basic idea is that everyone who has an interest, or stake in a business firm – managers, workers, sub-contractors, suppliers, customers, shareholders, the government, and, of course, society as a whole – should have an influence (formal or informal) over its governance and behavior – and have a right to receive a fair share of the benefits. Moreover, an organized society is not simply a marketplace. It is a vast cooperative effort devoted primarily to meeting the basic needs of its citizens. The interests of the private sector must ultimately be subordinated to this overarching collective purpose. Stakeholder capitalism would still provide ample rewards for merit, but this would be outweighed by our obligation to serve the common good. In a very real sense, stakeholder capitalism splits the difference between classic capitalism and socialism, and it has recently become a hot topic in academic journals, and in the media. Perhaps most significant, the influential Business Roundtable released a statement a few weeks ago, endorsed by nearly 200 of this country’s leading corporate CEOs, that called for a shift from shareholder capitalism to a “fundamental commitment to all of our stakeholders.” Another hopeful sign isthe recent announcement by Laurence Fink, the CEO of BlackRock – by far the world’s largest investment house, with some $6.3 trillion under management – that henceforth it would require its clients to be socially responsible. “Society is demanding that companies, both public and private, serve a social purpose,” he wrote. It is worth noting that there has also been some pushback against this idea. For instance, the influential British business magazine, The Economist, loudly disagreed with the Business Roundtable. “This new form of collective capitalism [sic] will end up doing more harm than good. It risks entrenching a class of unaccountable CEOs who lack legitimacy. And it is a threat to long term prosperity.” This is in fact a strawman, a caricature, not to mention being flatly wrong. The post-war era of “corporate statesmen” was one of the most dynamic and fast-growing periods in our history. It seems The Economist has forgotten about its own customary reliance on “competition” and the marketplace to preserve the vitality capitalism. A far greater “threat” to our future is our growing environmental crisis and our ever-increasing extremes of wealth and poverty, which can destroy a state. Plato called it the “war” between the rich and the poor. Although some large U.S. corporations these days have been voluntarily taking steps to become more stakeholder friendly, the challenge, as many observers have noted, is how to make it work more broadly and effectively. Stakeholder capitalism is preeminently concerned with changing hearts and minds in the business world. How do you engineer a change in the management values and boardroom behavior of a large company in a highly competitive marketplace without undermining its efficiency, flexibility, and profits – and its stock prices? I discuss some of these “how to” issues in my forthcoming new book, Superorganism: A New Social Contract for Our Endangered Species. To repeat, ideologies matter — a lot. They create norms, and expectations, and social pressures that can shape our behavior, and our public policies. Stakeholder capitalism is more than an idea whose time has come. It’s an idea whose revival is long overdue, and the current alternative looks increasingly perilous.

Etsy is one of the JUST 100, companies ranked by JUST Capital as the most successful at embracing ... More stakeholder capitalism in 2020. (Photo Illustration by Rafael Henrique/SOPA Images/LightRocket via Getty Images)SOPA Images/LightRocket via Getty Images As an observer and commentator on economic systems, I have an unusual advantage. I had the benefit of observing pure socialism in action. I grew up in Romania under a fanatic, communist ruler. Yes, communism is socialism but with a different ideology. But, economically, they are the same. The government has ownership over the means of production and distribution. That is socialism, period. And history has proven beyond a shadow of a doubt, it simply doesn’t work. I spent over four years as a worker (I was a special case. I was a political prisoner in forced labor from age 11 to 15.) I saw first-hand how socialism operates and why it really can’t work very effectively. After WWII, some nations in Scandinavia tried it. Even Britain experimented with socialism but was rescued by Margaret Thatcher. I was lucky to arrive in America at the age of 15, without any schooling for the previous 4 years, and without speaking a word of English. Fortunately, with a lot of help, I received a good education and worked for a multinational marketing services company, Young & Rubicam, for some 40 years, retiring as Chairman and CEO. The company did business in 80 countries all over the world. Importantly, we did a lot of business in China. I would describe the Chinese economy as operating on the principles of free enterprise capitalism. They are driven by ambition, the ability to take risks, share in the rewards, and have access to capital. One major difference is that the controlling “shareholder” is most often (directly or indirectly) the government. In the end, they maximize financial returns to benefit the government. In almost every case, free enterprise capitalism is capable of producing remarkable prosperity and growth. In fact, it is the most remarkable driver of prosperity and growth ever created. It is a magnificent factory creating wealth. Yet it has no moral judgement or conscience. And lately it can't see much past the next financial quarter. Most importantly, who is the beneficiary of the prosperity it’s creating? In China, where capitalism is lifting the population out of poverty, it’s mostly the government, or those designated by the government. For the last 40 years, here, in our country, it has been the shareholder. The governance rule and culture were clear: “maximize short-term shareholder value.” It was a business gospel preached by Milton Friedman and adopted by business in the early 1980s with the help and support of the government. And it worked brilliantly—for some 25% of America. The beneficiaries are the shareholders and top management, both very, very well compensated by the financial community. Ninety-one percent of the operating profits would go to this large minority of America. Once again, the capitalist economic machine worked brilliantly. But, as in China, this version of capitalism had no moral compass, no conscience. That’s why pre-Covid-19, America became socio-economically the most unequal among developed nations and had the lowest social mobility. The Covid-19 pandemic laid bare the devastating plight of some 70% plus of our population. The government had to send a massive amount of money to the bulk of the population simply to help them pay their bills—most people don't earn enough to buffer the savings needed to endure a sudden interruption of income. They use credit cards to pay for necessities and get deeper into debt every month. They are a paycheck or two away from poverty. They are proof that the governance of “shareholder primacy” has no conscience. I gave a speech last year giving as an example the tragic saga of Boeing BA , which for decades, was one of the great American success stories. Shareholder maximization capitalism brought the company to its knees. The story of the 737 MAX with two devastating crashes almost destroyed the company. The short-term profit maximization affected the new planes’ quality and safety characteristics. The mistakes were numerous and blatant. Here is but one critical example. Fortune magazine reported that between 2013 and 2019, Boeing spent $16 billion on research and development and $43 billion on stock buybacks. So, these were the priorities management and the board chose to live by. They spent more than 2 ½ times more money on repurchasing their stock than creating a more competitive and safer product! An amoral governance of shareholder primacy. Why would stakeholder capitalism be different? Stakeholder capitalism in 2020 America is designed to optimize the interests of six major stakeholders: the customer, the employee, the shareholder, the corporation itself, the environment (climate change) and society. The corporations’ CEOs and their board of directors’ mission is to optimize each of those six stakeholders. Their actions would be open and transparent to the financial community, to the shareholders, to the public, to the government. They will compete openly on how well they balance the interests of all those stakeholders. Now imagine, metaphorically, six representative stakeholders sitting at the decision-making table. Making sure their points of view and their interests are being debated and taken into consideration. Everyone has a voice and is heard. It’s not just some outside control imposed on the corporation (government or regulatory body). It rises from within the corporation. It is the daily charge of the corporate leadership and fiduciary duty of the board of directors to optimize the interests of those six vital stakeholders. Now, is this some idealistic pie-in-the-sky therapy? Actually, it’s a proven and tested concept. From 1945-1982 the capitalism that created America as the dominant nation in the world, economically and militarily, was pure stakeholder capitalism. It also created the largest economic market in the world, which was America’s middle class. More proof. From 1945 to 1982 the wealth creation of this version of stakeholder capitalism grew the top 1% of the population by income some 30%, the next 9% some 100%, and the bottom 90% grew by 80%. Quite a remarkable democratic performance. By contrast, the shareholder primacy era of the last 40 years saw the top 1% of America grow by a staggering 180%, the next 9% by 50%, and the bottom 90% lost -4% of its net worth. Finally, JUST Capital, is a not-for-profit organization that ranks the top 1000 corporations on criteria of justness identified by the American people. Predictably these criteria are almost identical to the stakeholder capitalism principles. (Full disclosure, I serve as a director of this organization.) Year after year, the findings have been clear: the most successful corporations, by financial performance, are also the most just, more fair corporations in how they run their businesses. Basically, the winning, most just companies, are the ones with a conscience. They are the ones that optimize the interests of those six critical stakeholders. Covid-19 has devastated our nation. The big losers are the bottom 70% of Americans—the poorer, the black and brown communities, the single mother households—as well as small services and much of what used to be called the working class. America’s democracy can only survive in the future if our American corporations can produce inclusive growth and prosperity for all our citizens. That’s why the post-Covid-19 governance better be the capitalist model with a moral compass. It is with commitment and urgency for our nation’s business leaders, for all of us capitalists, to embrace this proven, powerful economic model, one with a conscience: stakeholder capitalism. This advertisement has not loaded yet, but your article continues below.This advertisement has not loaded yet, but your article continues below.ESG and stakeholder capitalism use the regulatory state to control businesses for their own political and special-interest endsThe vague nature of the ESG framework raises a number of fundamental questions. Photo by Getty Images/iStockphoto filesThis week, the World Economic Forum planned to hold its annual meeting in Davos. Thanks to Omicron, however, we’ve received a six-month reprieve from lectures by elite “global leaders” and the collectivist policies they promulgate. This year’s meeting, now deferred to mid-year, will focus on how to accelerate “stakeholder capitalism” and its cousin ESG (short for “environmental, social and governance”), two related movements that diminish economic freedom, which is the key to prosperity, and push us closer to a new brand of socialism.THIS CONTENT IS RESERVED FOR SUBSCRIBERS ONLYSubscribe now to read the latest news in your city and across Canada.Exclusive articles from Barbara Shecter, Joe O'Connor, Gabriel Friedman, and others.Daily content from Financial Times, the world's leading global business publication.Unlimited online access to read articles from Financial Post, National Post and 15 news sites across Canada with one account.National Post ePaper, an electronic replica of the print edition to view on any device, share and comment on.Daily puzzles, including the New York Times Crossword.SUBSCRIBE TO UNLOCK MORE ARTICLESSubscribe now to read the latest news in your city and across Canada.Exclusive articles from Barbara Shecter, Joe O'Connor, Gabriel Friedman and others.Daily content from Financial Times, the world's leading global business publication.Unlimited online access to read articles from Financial Post, National Post and 15 news sites across Canada with one account.National Post ePaper, an electronic replica of the print edition to view on any device, share and comment on.Daily puzzles, including the New York Times Crossword.REGISTER / SIGN IN TO UNLOCK MORE ARTICLESCreate an account or sign in to continue with your reading experience.Access articles from across Canada with one account.Share your thoughts and join the conversation in the comments.Enjoy additional articles per month.Get email updates from your favourite authors.THIS ARTICLE IS FREE TO READ REGISTER TO UNLOCK.Create an account or sign in to continue with your reading experience.Access articles from across Canada with one accountShare your thoughts and join the conversation in the commentsEnjoy additional articles per monthGet email updates from your favourite authorsWhat do these two terms actually mean? The definitions are fluid by design but, broadly speaking, “stakeholder capitalism” means businesses should not focus purely on maximizing returns to owners but rather use their companies’ resources to solve social problems, thus maximizing benefits to various “stakeholders” (i.e., their employees, customers, suppliers, communities and countries). ESG is an even more nebulous concept relating to a wide range of causes from climate policies to “diversity” initiatives. There are more than 600 ESG reporting frameworks in use today, many of which conflict with one another.Get the latest headlines, breaking news and columns.By signing up you consent to receive the above newsletter from Postmedia Network Inc.We encountered an issue signing you up. Please try againThe vague nature of the ESG framework raises a number of fundamental questions. Which social and stakeholder “ends” to maximize? How should business leaders and boards of directors balance all the causes and interests of different stakeholders? And how do boards of directors evaluate how effectively CEOs are maximizing social or stakeholder welfare, since the preferences and demands of stakeholders often conflict? A sufficiently imaginative CEO can claim almost anything creates stakeholder value for at least some group.Economic freedom and market forces already address most of the issues raised by proponents of ESG and stakeholder capitalism. Any successful business, small or large, must account for the interests of its employees, customers, investors and the communities where it operates. Businesses that fail to do so are not as successful or get weeded out in competitive environments. This is one of the great virtues of capitalism that proponents of stakeholder capitalism often overlook.Adam Smith, the 18th century philosopher and founder of modern economics, noted the benefit that individuals acting in their own self-interest can have on society. “It is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner,” he wrote, “but from their regard to their own interest.” Simply put, businesses and entrepreneurs can only succeed by benefitting their customers — unless, that is, they are granted special privileges by government.The quality of food and level of service we receive from our favourite restaurant are not the result of a kind act by its owner but rather of the owner’s pursuit of success. By caring for their employees (by paying competitive wages and benefits) and their communities (via sponsorships and other local initiatives), businesses and entrepreneurs set the foundation for success, which depends on satisfying customer wants and needs.This advertisement has not loaded yet.This advertisement has not loaded yet, but your article continues below.But what is true for small business is also true for Kevin Johnson at Starbucks, Satya Nadella at Microsoft, Tim Cook at Apple and any other successful business leader. Their firms can only achieve sustainable success by providing customers with great products and services at a price they’re willing to pay. And if they do that, they are likely to maximize the value of their owners’ shares. Incidentally, many of these “owners” are pension funds investing the savings of regular workers.If we as a society want better social outcomes, including greater economic growth, better living standards, more happiness, greater income mobility and better environmental outcomes, then, as the research clearly shows, we should primarily rely on markets to make economic decisions. In short, we need more capitalism, which relies on the bottom-up forces of workers, entrepreneurs, investors, business owners and families making decisions about where to invest their labour, savings and entrepreneurial energies. Top-down regulations dictated by unaccountable politicians, bureaucrats and interest groups will not get us the things we want. Decentralized voluntary action will.It’s worth remembering that ESG and stakeholder capitalism are really nothing new. They used to be called “corporate social responsibility” (CSR) and Milton Friedman warned against it 50 years ago. “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible,” he wrote. “If businessmen are civil servants rather than the employees of their stockholders then in a democracy they will, sooner or later, be chosen by the public techniques of election and appointment.”Words that couldn’t be truer today.The ESG and stakeholder capitalism movements will ultimately see governments, unelected bodies such as the Canadian Securities Administrators and special-interest organizations like former Bank of England governor Mark Carney’s Glasgow Financial Alliance for Net Zero pressure, and if necessary, force businesses to choose the “appropriate” ends to achieve. In many ways, these movements are simply different approaches to socialism. Instead of governments owning the factors of production and seizing the commanding heights of the economy, ESG and stakeholder capitalism use the regulatory state to control businesses for their own political and special-interest ends.At a time when global elites are justifying mass social change in the name of public health and a more “equitable” future, it’s time to recognize the socialist nature of their arguments and the inevitable stagnation and increased poverty even a kinder, gentler socialism would impose on citizens wherever it takes root.Niels Veldhuis and Jason Clemens are economists with the Fraser Institute.