WORLD BUSINESS ACADEMY
Sharing the Vision... Building the Network... Healing the Planet

PERSPECTIVES

by ***Rinaldo S. Brutoco***

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Holistic Economics

No…Greed Is Not Good

Many people familiar with economic history are familiar with the huge influence that Milton Friedman commanded in our recent economic past. Friedman, an economist and statistician, had an outsized impact on nations around the world through his work heading up the "Chicago School" (referring to the University of Chicago where he taught and lead a group of like-minded economists from 1946-1977 in redefining a post-Keynesian world), and through the advisory role he enjoyed with both Ronald Reagan and Margaret Thatcher.

With an illustrious career beginning in 1935 when he worked within Franklin Roosevelt's administration in the run-up to World War II and stretched to 2006 when he passed away still showing himself as a Member of the Hoover Institute, Friedman is considered by many to be the most influential economist of the second half of the twentieth century. This guy had the ultimate resume for an economist, and maybe that's why he got so very many things wrong. Ultimately his deepest held beliefs have been proven defective. What a shame, and more importantly, what a "detour" this guy created for advancing a more intelligent view of how a healthy economic society should function.

This column isn't going to focus on his erroneous justification for the "trickle-down" economics of the Regan-Thatcher era. Nor are we going to dwell on his morally questionable view that having too little unemployment was a bad thing. As harsh as those theories were, his worst theory did more damage than all of his other conservative, misguided theories combined, and is the one we're going to focus on today.

Remember the 1987 film "Wall Street"? There is a famous soliloquy where the major protagonist, Gordon Gecko, explains the mantra that "Greed is Good." Here is what he said:

"The point is, ladies and gentlemen, that greed – for lack of a better word – is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms – greed for life, for money, for love, knowledge – has marked the upward surge of mankind"

Where did that outrageous idea come from?

Turns out, it was Milton Friedman in a 1970 New York Times magazine article entitled "The Social Responsibility of Business is to Increase its Profits". In it, he articulated an economic theory that came to be known as the Doctrine of Shareholder Primacy. He basically said that the only legitimate purpose of business was to enhance shareholder profits. That it would be wrong, even morally defective, for a business organization to engage in any socially responsible activities as that was not enriching shareholders and therefore was the equivalent of cheating on your employer.

In hindsight, Friedman couldn't have gotten it more wrong. He may have greatly pleased his conservative political friends and given them the tools they've used since 1970 to create ever greater wealth disparity on the economic ladder, and ever greater depression of economic well-being to the bottom 3 quartiles of society.

The idea that business is devoid of any broader social responsibility is just crazy for two reasons.

First off, it is now widely accepted by the best business professors, and more importantly by the executives of our large "more profitable than their competitive peers" corporate executives that a mindset of "shareholder primacy" leads to lower returns to shareholders! As previously cited here, the work of JUST Capital over the last decade, contrasting financial shareholder returns of ranked JUST companies, demonstrates that the shareholder returns of peer competitors, who view their responsibilities to all stakeholders equally, return higher shareholder stock values.

Secondly, no company exists separate from the society which gives rise to it. Companies which are smart enough to evaluate and serve the interest of all their stakeholders are less likely to be "blindsided" and far better run, and therefore produce superior returns.

Think about it. If you understand that your employees have a "stake" in your business, you will treat them better and have far less turnover saving tremendous time and resources from the need to find and train new workers and compromises institutional memory. If you realize that your vendors have a "stake" in your business, they will align with you more effectively, in good times and bad, creating a profitable ecosphere for you both. If you realize your customers have a "stake" in your business, you will listen to them and honestly seek to understand how you can "serve" them, thereby making your sales efforts more successful. If you realize that the community (the city, state, nation, or the international marketplace) has a "stake" in your enterprise, you are likely to enjoy better community relations and greater customer support. Lastly, if you believe the very biosphere has a "stake" in your business you are less likely to land on the losing end of climate change!

This view, seeing all these stakeholders as having a legitimate claim on your business activity, has a name. In contrast to "shareholder primacy," in the West, we call this approach "Stakeholder Capitalism." The Japanese version is called "Bushido Capitalism."

Kengo Sakurada, CEO of insurance conglomerate Sonpo Holdings, introduced his recent book on Bushido Capitalism with this observation: "Determining the value of a company should include a metric of the worth it provides to society, not just its financial profit." He says the optimum corporate goal should be to create "Sanpo-yoshi" which he explains, "translates as three-way satisfaction through business transaction: good for the seller, good for the buyer, and good for society. The focus is on multi-stakeholders."

At bottom, Sakurada argues, there is a need to create new measures of corporate value based on shared goals for the common good, that include companies, governments and citizens alike.

In a similar vein, no less a titan of American enterprise than Larry Fink, CEO of BlackRock, in his annual letters to CEOs and shareholders observed that stakeholder capitalism was paramount for modern business success. He wrote: "It is capitalism, driven by mutually beneficial relationships between you and the employees, customers, suppliers, and communities your company relies on to prosper." In fact, he concluded in 2020 as follows:

"In today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders in order to deliver long-term value for its shareholders. It is through effective stakeholder capitalism that capital is efficiently allocated, companies achieve durable profitability, and value is created and sustained over the long-term."

Right, greed is not good! Taking care of everyone through shareholder capitalism is, and that is holistic economics!

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