



## **With Capitalism Under Assault, Business Leaders Reimagine Role of The Corporation**

By James P. Freeman

*“The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism of the equal sharing of miseries.”*

--Winston Churchill, November 22, 1945

*“There is one and only one social responsibility of business -- to use its resources and engage in activities designed to increase its profits...”*

--Milton Friedman, Nobel economist, September 13, 1970

*“Capitalism basically is not working for the majority of the people. That’s just the reality.”*

--Ray Dalio, billionaire hedge fund manager, November 4, 2018

*“People are asking fundamental questions about how well capitalism is serving society.”*

--Alex Gorsky, Johnson & Johnson CEO, August 19, 2019

America’s top business leaders aim to fundamentally change the purpose of the American company.

Just over 20 years ago, the Business Roundtable (BRT) -- a trade group of nearly 200 of the nation’s most prominent chief executives -- believed in “shareholder primacy” (where all corporate business activities are directed solely to enrich shareholders). Today, however, BRT now professes a much more expansive role of the corporation.

The BRT declared last August a newfound commitment to “all of our stakeholders.” In addition to “generating long-term value to shareholders,” the broader goals now include “delivering value to our customers,” “investing in our employees,” “dealing fairly and ethically with our suppliers,” and “supporting the communities in which we work.” It is the most consequential reevaluation of business in BRT’s nearly fifty year history. The times, they are a changin.’

For many, such a drastic redress of the role of the corporation is a long time coming. For others, though, the new BRT vision is a capitulation of a long-held philosophic tenet of corporate capitalism (shareholder primacy), more evidence that capitalism, properly understood, is under assault. Still some see these recent developments in much larger terms -- proof that a long understood notion of economic order is being dismantled. Notwithstanding your view, BRT's salvo is a recognition that *laissez-faire*, market-oriented American-style capitalism as practiced by the corporation is undergoing a reimagining. So, what is going on and how did this come to pass?

Three authors present differing but compelling perspectives on the matter. Nicholas Eberstadt's essay, "Our Miserable 21st Century," published in February 2017, is the most read in Commentary magazine's history. It sets the tone for those who feel that America is mired in a distressing new era that is impacting many aspects of life -- "from work to income to health to social mobility." A growing sense of dissipation, dislocation and dysfunction began, Eberstadt reasons, in 2000, marking a "grim historical milestone." He writes that "the Great American Escalator, which had lifted successive generations of Americans to ever higher standards of living and levels of social well-being, broke down around then -- and broke down very badly."

While Eberstadt cites a number of well-known factors contributing to his thesis (family breakdown, low civic engagement, decline of faith), he presents a number of staggering newfound insights. One, a central theme, is what he calls a "dreadful collapse of work" in America in this young century. "...America has somehow managed to produce markedly more wealth for its wealthholders even as it provided markedly less work for its workers." Between 2000 and 2015, he notes, total paid hours of work in America increased by just 4 percent (compared to a 35 percent increase from 1985-2000). Yet in the same period (2000-2015), the adult civilian population rose by almost 18 percent. The net result is that paid hours of work per adult civilian have "plummeted by a shocking 12 percent."

This economic paradox is part cause and effect, and may result in an entire generation of civilian men in their prime working years (between age 22 and 55 years) sitting out from being productive contributors to, and beneficiaries of, traditional American economic progress, hence upward social mobility. Technology, undoubtedly, has contributed to this new reality. But two other big contributors are more recent: The opioid epidemic (along with, and because of, welfare dependency) and what some term as the "criminal class" both play a large part.

Eberstadt rightly feared the "emergence of a malign new nationwide undertow," putting downward pressure on social mobility.

Consider these horrifying figures: In 2015 more Americans died from drug overdoses than from traffic fatalities or guns (in each year from 2015 to and including 2018, over 50,000 Americans (mostly young people) died from drug overdoses (total deaths in the Vietnam conflict totaled over 58,000 -- mostly from 1965 to 1971); as of 2013, one in five of all 25-55 year-old men were on Medicaid; in 2017, approximately one in eight adult males in America had a felony conviction.

The new century was also greeted with three economic shocks: the dot-com crash (2000), 9/11 (2001) and the Great Recession (2009). As a result, trillions of dollars were lost, spent and ultimately diverted away from ordinary Americans. Notably, Eberstadt concludes, "the abstraction of 'inequality' doesn't matter a lot to ordinary Americans. The reality of economic security does." No wonder, then, "the mounting economic woes of the 'little people...' proved to be "potent fuel for the populist fire that raged through America politics in 2016."

Enter the Trump Presidency and the rise of new economic politics.

Donald Trump set a match to that populist bonfire in late 2016 and it is just as fervent as ever in 2019. The promise of a Trump-led executive branch was simple: a new government with old policies that would restore the economic and social order of the past (“MAGA”) via lower taxes, tariff impositions and deregulation actions bolstered by a marketing campaign of chest-thumping nationalism. Democrats, seeking the same kind of restoration, counter Trump’s approach by their more traditional policies of massive spending and more severe government regulation, led by a new progressive wave. Each side aims to remake the political economy. As one writer suggests, the 2020 election may indeed be about the “basic design of the economy.”

That writer, Nicholas Lemann, has a slightly different explanation of populist morass than Eberstadt, but it is woven from the same thread.

In *Transaction Man: The Rise of the Deal and the Decline of the American Dream*, Lemann argues that when corporations changed their social role, they upended politics too. A recent essay in *The Wall Street Journal*, adapted from his book, makes this case: “Large companies once offered workers lifetime security and generous benefits. Then they stopped, setting the stage for our populist moment.” Lemann adroitly traces this evolution.

He notes that Peter Drucker (perhaps the most famous management consultant in the 20th Century) foresaw that that the logical end product of the Industrial Revolution was the modern corporation. By the mid-20th Century, Lemann says, “corporate employment was an American exceptionalist version of the welfare state.” This new model, forged in the wake of World War II, was dependent on the corporation’s “economic invulnerability and the quiescence of its shareholders.” But the model was badly flawed.

Japan and Germany became economic powers which disrupted American corporate invulnerabilities (fierce competition begun in the 1970s), and the rise of finance combined with shareholder activism (leveraged buyouts, generous stock-options, mergers and acquisitions begun in earnest in the 1980s) further eroded the stability of the model. This ushered in an era of massive social upheaval. Suddenly, “expectations about job security, intergenerational progress, the stability of institutions and communities” became existential threats. The Organization Man morphed into the Transaction Man. And human capital became a commodity.

Some people “were fortunate and adept enough to readjust their lives in response to the remaking of the political economy” and prospered. But many were left behind. Lemann is not certain where this will lead as we are in “unfamiliar terrain.” Nevertheless, he maintains that “what’s indisputable is that the certainties of the late 20th-Century about how ordinary people’s lives were supposed to be organized economically have disappeared.”

*The Economists’ Hour: False Prophets, Free Markets, And the Fracture of Society*, by Binyamin Appelbaum, offers another point of view and delves further into the roots of today’s economic anxiety. He believes that the rise and influence of economists -- both of liberal and conservative persuasions -- reshaped the modern world. In particular, their ideas in the post-Cold War period about curbing government (to counter global Communism) and unleashing corporations (to promote global Capitalism) actually hastened globalization. Economists believed markets would deliver increasing economic growth and ensure that everyone shared the benefits. The goal was to deploy a

vibrant economic system to thwart a dangerous political system. For a time it seemed to work.

“The embrace of markets lifted billions of people around the world from abject poverty,” Appelbaum reasons. “Nations have been tied together by the flows of goods and money and ideas, and most of the world’s 7.7 billion people live wealthier, healthier and happier lives as a consequence.”

But this “market revolution” went too far. “In the United States and in other developed nations,” he adds, “it has come at the expense of economic equality, of the health of liberal democracy and of future generations.” While many grew rich, the middle class has fared less well, and it senses that the future may in fact be less prosperous for the next generation. As David Grogan for NBC wrote recently, “the financial crisis and the Great Recession bared and exacerbated those consequences in ways that 10 years of recovery have not erased.” So, “the economists’ hour” has passed. And with it, perhaps, accepted norms of what capitalism means and what it is supposed to deliver.

New polling suggests that younger generations (millennials and Gen-Z) have a far less favorable view of capitalism than older generations. The 2019 YouGov–Victims of Communism Memorial Foundation poll found that 50 percent of millennials (defined as between the ages of 23 and 38) and 51 percent of Generation Z (those ages 16 to 22) have a somewhat or very unfavorable view of capitalism, an increase of 8 and 6 percentage points, respectively, from the same poll conducted in 2018, reported Market Watch. It is not surprising, therefore, the rise of socialist-populists American politicians like Sen. Bernie Sanders and Rep. Alexandria Ocasio-Cortez.

It would appear that America’s chief executives too are sensing this sea change in sentiment.

The September 2019 Fortune magazine dedicated a large portion of the issue to the BRT announcement. In fact, the cover story asked, “Profits and Purpose: Can Big Business Have It Both Ways?” JPMorgan Chase Chairman & CEO Jaime Dimon, who also chairs the BRT, said the new BRT statement “is an acknowledgement that business can do more to help the average American.” JPMorgan is already acting out the spirit of the BRT vision. The bank revealed that 10 percent of its 2018 hires had criminal records. And others are seizing upon the BRT viewpoint

Salesforce CEO Marc Benioff argues that companies have been too focused on shareholders at the expense of employees, customers and the communities they serve. The company he co-founded is represented on the BRT. Recently, he told CNBC, “Because the reality is, if these companies don’t step into these new values proactively, then the government’s going to have to shift them into those values.”

Peace and prosperity figure into every presidential election, particularly prosperity (recall Ronald Reagan’s question in 1980: “Are you better off than you were four years ago?” and Bill Clinton’s bromide in 1992: “It’s the economy, stupid”). Many of the economic challenges of this troubled century have not been adequately addressed so far in the 2020 presidential election, despite historically low unemployment levels and high stock market levels. Such favorable conditions may in fact mute a discernable populist dissatisfaction with the free enterprise system. Time will tell.

If Trump were to win reelection in 2020, it would continue a trend that reflects the general satisfaction of the electorate with incumbent presidents since the 1980s: every incumbent beginning with Reagan has been granted a second term, except for George H.W. Bush in 1988. A Trump reelection would also be a first in America history in this sense: Americans have never elected four successive two-term presidents. Only twice in its history have Americans elected three successive



two-term presidents (Jefferson, Madison, Monroe (1800-1824), and Clinton, Bush, Obama (1992-2016)).

Notwithstanding the composition of the American government after the 2020 elections, the American corporation is adapting to the simmering national discontent right now.

*James P. Freeman is the director of client relations at Kelly Financial Services LLC, based in Greater Boston. This content is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any interest in any investment vehicles managed by Kelly Financial Services, LLC, its subsidiaries and affiliates. Kelly Financial Services, LLC does not accept any responsibility or liability arising from the use of this communication. No representation is being made that the information presented is accurate, current or complete, and such information is at all times subject to change without notice. The opinions expressed in this content and or any attachments are those of the author and not necessarily those of Kelly Financial Services, LLC. Kelly Financial Services, LLC does not provide legal, accounting or tax advice and each person should seek independent legal, accounting and tax advice regarding the matters discussed in this article.*