

# FINANCIAL POST

## Companies pursuing social ends amounts to business suicide

Matthew Lau

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The appropriate state of the relationship between business and government should be that of the Capulets and the Montagues: ideally they should keep their distance; if they don't, it should be because they are at war. When they get into bed together, calamity ensues. Government involvement in business, as seen in the former Soviet Union and demonstrated to a lesser extent by the many economic planning initiatives undertaken by politicians today, invariably serves to reduce freedom and prosperity. Similarly, when corporate executives try to take on the role of politicians and businesses engage in political and social activism misfortunes also arise.

Milton Friedman referred to business involvement in political and social issues — most notably, businessmen promoting the idea of corporate social responsibility — as the “suicidal impulse of the business community.” Businessmen who affirm that business is concerned with achieving social objectives instead of “merely” earning profits, Friedman wrote, are “preaching pure and unadulterated socialism.” By strengthening the views that increasing profits is somehow socially irresponsible, and that economic transactions are zero-sum, they raise support for government control and undermine free markets.

The social responsibility doctrine holds that the purpose of corporations is to achieve social objectives beyond advancing the interests of the shareholders who own them. According to this doctrine, any number of “stakeholders” — governments, climate-change activists, labour unions, the Indigenous population, organizers of fashionable social protests, and so on — are entitled to the private property of shareholders. For if shareholders have some obligation to use their property to advance interests not their own, then that property is not really theirs. It belongs to whoever's interests they are responsible for advancing — which is usually whoever has the most political power.

This idea is clearly at odds with the long-term health of businesses. It is also preposterous and unworkable, for if corporations are to be held responsible for using shareholder resources to serve various stakeholders, then so too must individuals be held responsible to serve the interests of whichever stakeholders lay claim to their assets. If Smith goes on a diet and cuts hamburgers out of his diet, is he obligated to pay reparations to stakeholder Jones, a teenager employed at the neighbourhood McDonald's, since Jones's income depends on people eating lots of hamburgers?

Proponents of social responsibility, if they want to be logically consistent, may well have to conclude that the answer is “yes.”

Yet another downfall of the social responsibility doctrine, beyond its impracticality and economic destructiveness, is that it also causes profound social harm of the sort that its proponents say they are trying to mitigate. The subservience of businesses to social objectives results in an unholy union between economic power and political power, which, as economics professor Pierre Lemieux writes in a recent essay for the Cato Institute, “facilitates government authoritarianism.” In a free economy, individuals who face government discrimination, either because they do not subscribe to government doctrines on social issues or for any other reason, can still engage fully in economic activity. Not so if the objectives and interests of business and government are merged.

The Jim Crow era in the United States provided an excellent example of the perils of merging business and government interests and power. Businesses looking to maximize profits for shareholders were happy to serve both Black and white customers, because turning away customers of any colour would be bad for the bottom line. The same could not be said of businesses that aligned their interests with government objectives. It was the government that enforced segregation. More generally, in addition to the curtailment of prejudice, the results of businesses delivering widespread economic benefits in the pursuit of profits include social progress of all kinds: large-scale poverty alleviation, medical advancement, increased protection from environmental disasters, and so on.

It is important, in this light, to prevent business suicide and to reject doctrines that undermine the mission of businesses to earn profits. This is best accomplished by having businesses stay away from political and social issues, and having government stay away from business. Business and government might sometimes clash, as governments should ensure that businesses don’t engage in things like theft and fraud, and businesses should beat back politicians and other interest groups trying to lay claim to shareholders’ property. That is all good and fine. There is nothing wrong, after all, with the occasional brawl between the Capulets and the Montagues. It’s when they fall in love that “never was a story of more woe.”