

An Apology for Capitalism?

*Johan Norberg – Head of Political Ideas, Timbro
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What's the role of Johan Norberg in society? How can I act so as to best benefit society? These anxious questions went through my mind during discussions about the role of corporations and how they benefit humanity.

I think this discussion is too much guided by a centralising instinct, it's actually too neo-classically authoritarian. As if people and corporations were means to our ends, which we could place where we think that they would most benefit us. It is also a very inaccurate description of the real reason that corporations exist, which is because they are made up of people. No entrepreneur wakes up in the morning and thinks "*Today I will really work hard to be able to give a lot of taxes to the government*" or "*lower the unemployment rate*" or "*increase GDP*", for that matter. Rather, they do it because it's good to create, because it's a joy to accomplish things, or because they want to support their family, or perhaps to become rich or because they want to change the world. Indeed, perhaps because they want to start a 'Body Shop' to save the animals. But most importantly they act because of their own multitude of interests and preferences, not those of society.

John Kay believes that the argument that corporations exist to maximise the profit of the shareholders is insufficient because someone could ask "Why should we let them?" He couldn't think of an answer to this question. I think there is an easy answer: Their business is none of your business.

What would give you or anyone else the right to interfere with other's creativity and voluntary forms of cooperation? If they want to have a Body Shop, a huge profit or just a great time, it's none of our business.

To say that it is difficult to answer why we should let them be is a bit like saying that it's difficult to reply when a burglar asks why he should leave someone's house in peace. Because it is not his house, of course.

Voluntary exchange

But there are things that we can demand from other people's actions – that they don't

hurt us in the process and that they don't force us to cooperate with them. Thus we have the rule of freedom of contract and voluntary exchange. Corporations will only get the resources for their projects from us if they offer us something, which we consider to be better, in return – nice goods or the hope of good returns, perhaps.

Voluntary exchange is the basic moral rule of free-market capitalism. Its consequence is that profits are a reflection of how well a corporation responds to its consumers' needs, because we wouldn't have given them our money otherwise. The more profit a company makes, the better they have been at giving more value to us, at less cost to them. In other words, profit is evidence that they are putting society's resources to an efficient use. This is not why corporations exist – people have their own reasons to start them – but this is why we should be happy that they exist.

Capitalism does not need an apology because some capitalists are guilty of mistakes, deceit or fraud. We know that people are prone to mistakes and ruthless short-term behaviour. That's not a surprise. That's exactly why we have invented the rule of voluntary exchange, so that we limit their power over other people and only allow them to use people's resources if they entrust them voluntarily. It also means that the moment we get information on mistakes or fraud, the trust is broken and investors and customers abandon the company. When things like that happen, we shouldn't feel ashamed of capitalism. On the contrary, we should feel proven right in choosing a decentralised market system, instead of some sort of economy which centralises a lot of decisions to the top.

Imagine if the executives at Enron governed the entire economy. They could merely have taken taxpayers' money to continue to finance their mistakes. This is precisely how every centralised economy has been brought down throughout history.

The genius of capitalism is that we abandon the failed and move on with the successes. Enron collapsed and the resources were recycled into other corporations and even though many people were hurt in the process, American energy consumers hardly noticed the collapse.

CSR – responsible or irresponsible?

Where does this leave corporate social responsibility? Possibly nowhere, at least not

in its modern, ideological version because if you agree that the best thing corporations do is to use society’s resources as efficiently as possible, everything else they do will make them less productive and beneficial.

When CSR experts encourage corporations to improve the region, the environment, and their staff or to build hospitals and schools, they say that corporations have to “give something back to the community”.

Give something back to the community? Where have these people been during the last few centuries? The innovators and entrepreneurs built this community and took us out of the squalor and misery that had always been the fate of mankind. During the last 50 years the income of the average human has been increased by twice as much as it increased in the 500 years before. During the last 50 years, global poverty has been reduced more than it had been in the 500 years before. In the last 30 years, the average income in developing countries has been doubled and child labour and chronic hunger has been cut in half.

Despite all our problems, we live in the golden era of human improvement. And this is all dependent on wealth creation and the scientific and technological breakthroughs that are possible because of wealth creation. It is a result of corporations continually shifting resources from less profitable and efficient uses to the more profitable and efficient. Therefore, a corporation in its normal activities is on the whole something good, something fantastic, something worth encouraging. If the owners of an individual corporation are interested in doing other things apart from that, they should feel free. But don’t ever suggest that corporations who confine themselves to increasing production and productivity and giving us more and better goods and services are in some ways “irresponsible”. That’s not merely wrong. It’s an insult.

Listening to protesters

Some say that Corporate Social Responsibility is a way of selling business, that customers will flock around a company that is seen as responsible and socially decent. In that case, CSR would be a way of giving consumers values and symbols they value more, in exchange for money they value less.

I think there is something to this; people do not want irresponsible companies. But

that does not mean that they want the specific behaviour that the CSR-ideologues promote. If it were, corporations would be hoping that their competitors would forget about CSR and ethical behaviour in order for them to gain a competitive advantage. But they are not. Many corporations who go further with CSR – for example Nike – complain that it is unjust that they assume big costs for this whereas others are ‘free-riders’. They fight in business associations for self-regulation so that others follow them and sometimes also government regulations to force the others to comply. Why would they be doing this – if they really thought that social responsibility was profitable, a way of selling their goods?

I think they do it because social responsibility in this strict sense is not what the customers demand. Please note that advocates of CSR lobby corporations rather than consumers - and they are more successful in lobbying corporations. Specific forms of ‘good behaviour’ or putting an end to bad practises, is certainly a result of listening to the community. It is not a new thing that corporations take it into consideration but the modern idea of CSR is not an answer to popular demand. It is an ideology about how corporations should behave and it is often developed by the enemies of traditional profit-seeking businesses – people from environmental organisations and anti-globalisation activists, who understand that they won’t get their way in politics but know that they can get timid corporations to follow them. Especially if they are employed as CSR experts and consultants.

Do you ever wonder what happened to the hundreds of thousands of young people who protested against free trade and capitalism in the streets a couple of years ago? Many of them are now in boardrooms, wearing suits, telling corporations what to do. The corporations opened their doors – and a procession of demonstrators walked in.

A protection racket

So why are corporations listening? This is not an entirely voluntary process. It is often led by a fear of the anti-corporate political climate, which might result in a heavier burden of regulations and taxes if the corporations do not act in a more politically correct way.

Activists and many politicians act a bit like an old crime boss. They visit a company, take a look around and remark: *“Nice little business you’ve got here. It would be a*

real shame if something bad should happen to it, wouldn't it?”. And of course they can make sure that nothing bad happens. Just follow the political whims of the day. This is an offer that corporations can't refuse. Otherwise they'll find a pile of new rules, standards and regulations beside them in the bed when they wake up in the morning.

And then the whole process takes on a dynamic of its own. The corporations who go the furthest, will devote a lot of resources to help governments and NGOs to push for general self-regulation, and in the end often government regulations. Corporations like that don't sell out capitalism; they buy the end of capitalism with their public relations budgets.

We have been living with do-gooders in NGOs, our governments, the United Nations and other multinational institutions for a long, long time. They regularly hold enormous meetings where they say a lot of economically illiterate things about how important it is to conserve our resources – instead of using them to the benefit of us and the future of our planet. They say that we should improve working standards in poor countries radically – even though that would destroy the chance of poor countries to compete. They say that it is ethically problematic when corporations downsize and outsource – even though it's precisely by doing more with less resources that a society gets richer and so is able to increase its living standards.

But the good thing about the do-gooders in the United Nations is that they are bureaucrats who talk and talk endlessly without any real results – they always come away from the meeting with a very long and very empty statement on how to improve the world.

However, do-gooders are now being joined by corporations and businessmen, who are actually able to produce results. They are serious people who might take these words and statements seriously – and in that case, we're in for some very deep trouble.

Johan Norberg is the author and editor of several books exploring liberal themes, including a history of liberal pioneers in Swedish history. His articles have also been published internationally and he has appeared on BBC Radio and other

international radio and television networks discussing globalisation and free trade. He is also a member of the Mont Pélerin Society.

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