Capitalism thrives by looking past the bottom line

By Lynn Forester de Rothschild

Business cannot solve society’s ills, but it is now the problem, says Lynn Forester de Rothschild

It is no coincidence that the jargon of capitalism borrows so heavily from the language of human relationships: think equity, credit, trust, share, bond and fair value. Capitalism is an extension of these basic human aspirations, and has guided the world economy to unprecedented prosperity.

Yet faith in market institutions has rarely been lower. This is not without reason. Markets mostly encourage a near maniacal focus on short-term financial results, tolerance of disparities of opportunity, and an apparent disregard for the common good. If these tendencies are left unchecked, the public cannot be expected to show faith in capitalism.

Polls show a correlation between public confidence in the system and broad-based income growth. In the 1990s, middle-class US household incomes improved by 14 per cent in real terms, according to official data. In the same decade, opinion polls show, the proportion of people who believed the US was moving in the right direction went from 28 per cent to 51 per cent. But between 2000 and 2012, the average income of this group declined by more than 8 per cent; not surprisingly, the number who believed their children would be better off than they were fell from 71 per cent in 2000 to 15 per cent in 2013.

Disillusioned by the market, voters increasingly demand politicians rein in finance and corporations. In a poll by Populus and the Financial Times, 61 per cent of Britons said they would vote for whichever party is tougher on big business. The mayor of New York was elected on an agenda of being tough on companies and the rich. Although it is not the business of business to solve society’s problems, it is dangerous when business itself is viewed as the problem. To reverse this belief and end the political backlash, it must actively address its failure to deliver for the common good.

This is a tough task requiring leadership and co-operation between businesses, philanthropies, individuals and governments. It will mean investments must be measured not just by short-term returns but by the development of human capital, management of innovative potential, compensation aligned with true value creation, supply chains that are sustainable and measurable evidence of the overall contribution of the enterprise to society.

Businesses are beginning to make a difference. Since abandoning quarterly profit reporting five years ago, Unilever has publicly stated its long-term strategy and adopted plans to expand the consumer goods group while shrinking its environmental footprint. The Tata industrial group has long prioritised its responsibility to communities in India where it invests in schools, hospitals and research institutions. In the US, businesses such as Costco and the Container Store pay workers far more than the legal minimum wage.

These steps can provide financial returns. Higher wages cut employee turnover, sustainable supply chains are likely to cut costs in the long run, and community-conscious firms are increasingly attractive to the skilled workers and devoted customers businesses covet. But their most important contribution is to reinforce the consensus that capitalism can be relied upon as an engine of progress and a source of optimism.

It is not, however, fair to expect chief executives to shoulder all the responsibility for making capitalism more inclusive. Corporate behaviour will not change without a critical mass of investors and customers who demand long-term thinking and higher ethical standards.

This is starting to happen. Norway’s nearly $800bn sovereign wealth fund has appointed a committee to advise on both rethinking its investment strategy and principles to improve returns and become more socially responsible. A broader move to reorganise fund management structures and adjust management incentives could drive enormous change. However, no chief executive, asset manager
or institutional investor can improve the system alone, so it is vital that key players demonstrate that they manage and invest in a way that expands the benefits of capitalism.

*The writer is chief executive of EL Rothschild, and founder and co-host of the Conference on Inclusive Capitalism 2014*

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