

# MUSINGS

BY MARJORIE KELLY



## Questioning the Purpose of Capitalism

*"Maximizing shareholder return" is a hallowed phrase, but do we really mean it?*

**A** FRIEND OF MINE is an architectural historian, and I love the word she uses to describe buildings that aren't so much designed as simply built—"vernacular."

Like barns. When a farmer sets out to build a barn, he doesn't consult an architect, he just builds it. Everybody knows what a barn looks like, and that's what he builds, the barn in his head. The vernacular barn.

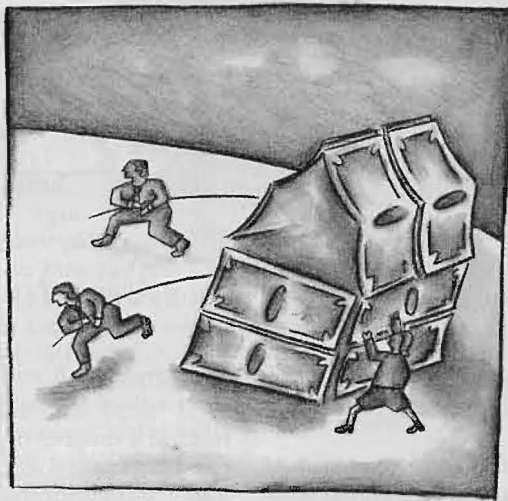
We all have notions of capitalism, and when we go to build businesses, work in them, or talk about them, it's the vernacular notion of capitalism we rely upon. It's about maximizing return to shareholders, we say. There's this settled feeling about this phrase—as though it's a simple truth that "everyone knows."

Do we really believe it? Do we ever stop to think what it really means, and where it logically leads? Because where it leads is precisely where we are today—a place we ought to find alarming. It's a place where wages are stagnant, while corporate profits are soaring.

Although people seem surprised by this trend, it's nothing new in capitalism. Economic historian Karl Polanyi named it in 1944, when he coined the phrase the "Two Nations Effect," describing the tendency capitalism has shown ever since the Industrial Revolution—producing abundance for some, while producing suffering for others. As Polanyi argued, this is *built into* capitalism: not as a side effect, but as a direct effect of its design.

Today, if you were to drop in on one nation—the nation of stockholders—you would see that net earnings for the S&P 500 climbed an astonishing 40 percent in 1994 alone, the fourth year of double-digit increases, bringing capital returns to a historic forty-five-year high. But if you were to cross the border into the nation of wage earners, you would find spirits sinking along with wages. Average compensation is down 5.5 percent since 1987, according to the BLS Employment Cost Index. Fewer workers have health insurance or pensions. And more than one in five work in part-time or temporary jobs.

The pundits tell us the "social contract" is changing. I've counted a dozen writers using this phrase—implying there's some contract somewhere saying that workers who help create wealth are supposed to share in it. And maybe there ought to be. But there's not. The social contract of capitalism is in fact quite explicit: It's about maximizing return to shareholders. We've just never looked at what that really means.



**"The social contract of capitalism is about paying workers less, so shareholders can be paid more."**

Sometimes the simple things are what we fail to see. They're so obvious they're invisible. If this were a fairy tale, some child would stand and shout, "Look, the capitalist emperor has way too many clothes—and the people who work for him are all in rags."

The social contract of capitalism really is about paying workers less, so shareholders can be paid more. It's about reducing the wages of one person, so as to increase the profits (or capital gains) of another. It's called maximizing shareholder returns.

And shareholders, by and large, are the wealthy. According to the Economic Policy Institute, 1 percent of the population owns 48 percent of the nation's financial assets.

So when we as business people go about our business of maximizing shareholder returns, we are moving money toward the wealthy. Quite often we do this—with layoffs, for example—by giving less money to employees. We refer to this as "reducing costs," or running "lean and mean." It means we give people who work

for a living as little money as possible, so that we can give people who live off their assets as much money as possible.

It's not wealth I'm taking issue with here; I hope to have a good deal of it myself one day. And it's not capitalism as a whole that I question; I think it's the wisest economic system ever devised. What I take issue with is the current design of capitalism, which systematically favors the propertied class over the working class. Because in a democracy, such a system is a disgrace.

I'm also not criticizing individuals because I know we're all caught in the system. Companies that try to provide good wages face competitive pressures from those sending jobs overseas. CEOs whose quarterly returns dip are called on the carpet by pension fund managers. We can't get out of this alone, but we can get out of it together. And there's only one place to start—by questioning the vernacular notion "everybody knows:" that the purpose of capitalism is to maximize shareholder returns.

Is it really? And if enriching shareholders isn't the purpose of capitalism, what is?

I'd love to hear from you on this one (see address, page 9). For the best answers, I'll award a chocolate-covered rice krispie treat. And we'll publish a sampling in a future issue. In twenty-five words or less, what's the real purpose of capitalism? ✎