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Stakeholder Capitalism [1]

Written by **Tim Ambler** [2] | Friday 27 January 2012

One of yesterday?s headlines, ?Davos elite confronts capitalism crisis?, reflects the widespread view that the financial crisis shows that capitalism has failed and ?we need another economic model?.

The anti-capitalists see making money from other people?s needs as wicked. Business should be there to help people, they say. Of course, communism was seen as good because profiteering was illegal, but that was a main reason for its collapse: it removed the profit incentive.

The middle, Davos, ground is that making profits in moderation is acceptable provided it takes place within the ?stakeholder? context. In other words, business should not be preoccupied by making money for its shareholders but should also take care of suppliers, customers, employees and society as a whole. A corporation should only be given a licence to trade if it meets these wider responsibilities. Profit is still basically reprehensible but is accepted as necessary to meet these social goals. The hysteria generated by NHS reform suggests this view is widespread.

The pious folk who believe this rubbish have forgotten, if they ever knew, that profits provide everyone?s income whether it be in employment in the private sector, or via taxes in the public sector, or through their investments. Cash flow needs to be positive and marketing provides the cash flow. It?s actually quite simple: make money and do not be distracted by corporate responsibility. Making money makes everything else possible. The alternative is that we continue to decline.

Yes, a firm needs to have a fine reputation, marketers call it ?brand equity?, but that is a means to an end, not an end in itself. Customers will favour businesses they know, respect and trust. So building brand equity builds long term profit. Sensible firms leave purely charitable activities to their shareholders.

According to the political chatter, the financial crisis and economic slowdown have shown that we need a new economic model. Some believe Angela Merkel can put such a model on the blackboard and national GDPs will be rejuvenated. The chatterers are gloriously unspecific about what this model might be. The nearest the chatterers have come is to cite the economy of China but anyone doing so does not understand China. It is simply at an earlier stage of a similar model to ours. The state owned enterprises have failed and are being phased out; private enterprise is flooding in. Their corporate leaders are just as rapacious and profit-oriented as any British Victorian factory owner. Quite a few rip off their customers and/or Western partners. In general they work harder for less reward and have become the world?s factory by moving gradually towards the Western economic model. My Chinese dictionary does not have a Chinese word for ?stakeholder?.

Yes, even free markets need some rules. I?m not sure we should go as far as the Chinese, who execute

those found guilty of corruption, as much as some on the Left might like to apply that model to bankers receiving excessive remuneration. But regardless, our decline and the rise of China show that the capitalist economic model actually works rather well: the fault, dear Brutus, lies in ourselves.

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