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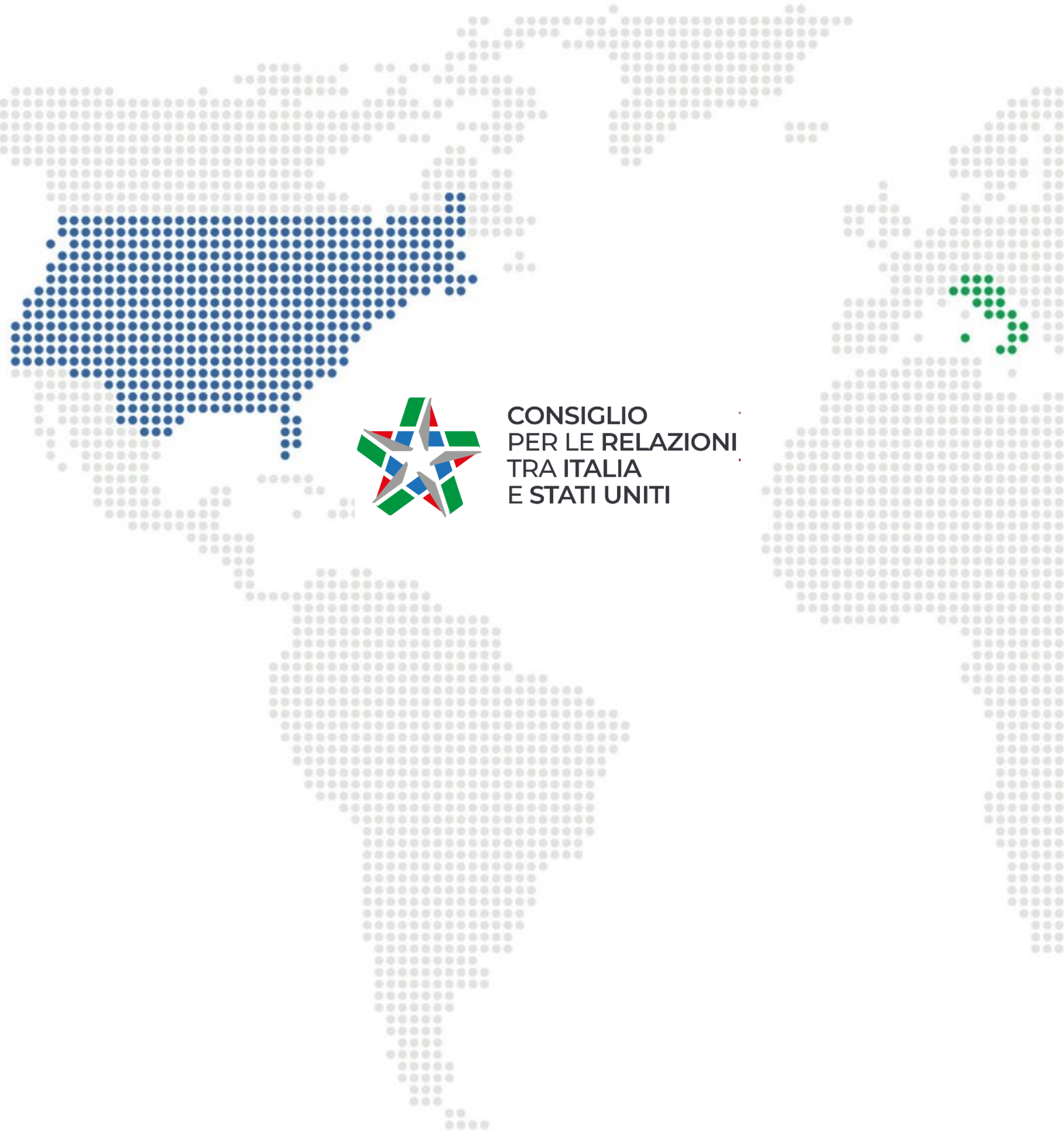

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"What Should Corporations Do?"

(Project Syndicate - October 6, 2020)

Raghuram G. Rajan, *former Governor of the Reserve Bank of India, is Professor of Finance at the University of Chicago Booth School of Business and the author, most recently, of The Third Pillar: How Markets and the State Leave the Community Behind.*

For all the excitement about corporate "stakeholders" and "purpose-driven" firms, the new mode of capitalism is simply a repackaging of the old. Successful companies will continue to focus on the value of their shares over the long term, while avoiding the risks of wading into areas where they don't belong.

CHICAGO – With the COVID-19 pandemic reinforcing concerns about economic inequality, left-behind communities, discrimination, and climate change, there is increasing pressure on corporations to do more than sell a good widget at an affordable price. Responding to the changing public mood, the US Business Roundtable declared last year that, "Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities, and our country."

But this way of framing the issue is unhelpful. A corporation's stated objectives should help guide its choices. If all stakeholders are essential, then none are. In an attempt to please everyone, the Business Roundtable will probably end up pleasing no one. Recent evidence even suggests that the corporations that signed on to the group's "stakeholder capitalism" statement have been more likely to lay off workers in response to the pandemic, and less likely to donate to relief efforts.

Nevertheless, is the shareholder-centric view propounded by Nobel laureate economist Milton Friedman wrong? Friedman's rationale was that because managers are employed by shareholders, their duty is to maximize profits – and thus the share price – over time. While this approach was widely embraced by corporate executives in the United States and the United Kingdom over the past 50 years, its basic logic was misunderstood. To many observers, the idea that businesses should favor millionaire investors at the expense of long-term workers is appalling.

Yet there is a deeper argument for Friedman's view, based on the recognition that managers will not necessarily squeeze everyone else to favor shareholders. Because shareholders get whatever is left over after debt holders are paid their interest and workers their wages, management can maximize shareholders' "residual claim" only if it expands the size of the corporate pie relative to these prior fixed claims on it. To the extent that management must satisfy everyone else before looking to shareholder interests, it already does maximize value for all those who contribute to the firm.

True, some would counter that the imperative to boost quarterly profits leads to cost cutting in areas like worker training. But if companies want to maximize their shares' value over the long term, they will train workers where needed, encourage sustainable practices from their suppliers when it reduces costs, and foster lasting relationships with customers instead of ripping them off. Put another way, even if CEOs do focus primarily on share prices, that doesn't mean the stock market only rewards actions that boost this quarter's earnings. Amazon showed little profit for years, but is thriving now precisely because it invested so much in its business.

Moreover, when quarterly results do affect share prices, it is often because the short term has been interpreted as a credible reflection of the long term. By the same token, instead of trying to boost short-term profits by sacrificing the long term, corporate managers would do better to explain their strategy and encourage investor patience. And if market analysts do not buy their argument, perhaps they have a point, and new management may be in order. It is up to good corporate boards to decide, without being swayed by meaningless short-term results. They can certainly encourage managers to take a longer-term view. Vacuous statements about serving all stakeholders need never be issued.

To be sure, corporate managers have misused Friedman's original formulation to justify ever-increasing pay denominated in stock, which they claim "aligns" their interests with shareholders'. But this reflects a failure of corporate governance, not fundamental objectives. The real problem with Friedman's formulation is that no matter how correct it is technically, the fact that it is misunderstood makes a difference: Today's idealistic workers and customers refuse to accept it. The ironic implication of this attitudinal shift is that corporations that announce a commitment only to maximizing shareholder value risk driving away key constituencies, which will be reflected adversely in their share price.

This is why, as a recent McKinsey & Company report shows, more corporations are becoming "purpose-driven." Among the benefits they claim are stronger revenue growth (by attracting socially conscious customers), greater cost reduction (such as through energy or water efficiency), and better worker recruitment and motivation (making "doing good" an employment perk).

Of course, none of these targets is at odds with the objective of maximizing shareholder value. Corporate purpose is useful only insofar as it enthuses critical constituencies. If purpose is meant to please everyone, however, it will introduce an impossible standard and backfire. The key is for management to make clear how it will choose between different constituencies when trade-offs must be made.

For example, when Google withdrew from a US government program to develop artificial intelligence for military purposes, it signaled that its employees' objections were more important than the interests of a large, lucrative client. As a result, Google employees and customers all have a better sense of how the company weighs their interests, and that clarity will be beneficial in the long run, including to its share price.

"To Lock Down or Not to Lock Down?"

(Project Syndicate - October 7, 2020)

Peter Singer, *Professor of Bioethics at Princeton University and founder of the non-profit organization The Life You Can Save. His books include Animal Liberation, Practical Ethics, The Ethics of What We Eat (with Jim Mason), Rethinking Life and Death, The Point of View of the Universe, co-authored with Katarzyna de Lazari-Radek, The Most Good You Can Do, Famine, Affluence, and Morality, One World Now, Ethics in the Real World, and Utilitarianism: A Very Short Introduction, also with Katarzyna de Lazari-Radek.*

When deciding whether to impose strict public-health measures to rein in COVID-19, it is not enough to determine how many lives will be saved and lost. An adequate assessment of the costs and benefits must address three issues.

MELBOURNE – For the past three months, this metropolitan area of nearly five million people, the capital of the Australian state of Victoria, has been under one of the world's tightest lockdowns. You may leave home only if shopping for essential items, meeting medical needs, providing care, taking up to two hours of daily exercise, and going to work if it is impossible to work from home. Travel of more than five kilometers (3.1 miles) from home, or across the boundary of the metropolitan area, is prohibited. Police hand out heavy fines to violators.

The Victorian government ordered the lockdown on July 5, after a day in which the state, which has a population of 6.7 million, recorded 191 new COVID-19 cases – the state's highest daily total since the pandemic began. The outbreak peaked at 723 new cases on July 30 and then began to fall. By October 4, the 14-day moving average had dropped to 12.

At the time of writing, the state has had over 20,000 cases and 800 deaths. All the other Australian states together have had fewer than 7,000 cases and under one hundred deaths, making it possible to hope that Australia could eliminate the virus, as neighboring New Zealand has come close to doing.

No major political party opposes the lockdown. Organized protest rallies were sparsely attended, perhaps because police warned protesters that they could be fined – and many were. Protesting is not one of the permissible reasons for leaving home.

When faced with a highly contagious disease that puts vulnerable people at risk, few Victorians are moved by abstract calls for "freedom" coming mostly from younger people who are at lower risk. Most accept that the lockdown is necessary because it saves lives. And the steep decline in the number of new cases and deaths during the lockdown suggests that it does prevent deaths from COVID-19.

But that is only part of the picture. In the United Kingdom last month, 32 scientists signed a letter to Prime Minister Boris Johnson pointing to the significant harms that lockdowns cause – harms that, they suggest, may exceed the benefits. The scientists cite an estimate from Cancer Research UK that the lockdown has led to two million delayed cancer screenings, tests, or treatments, which could cost as many as 60,000 lives – more than the UK's 42,000 COVID-19 deaths so far.

Cancer is only one cause of death that the lockdown is likely to increase; there are likely to be many others. But without a lockdown, the number of deaths from COVID-19 could end up being many times greater than the present toll. There are also other ways in which the lockdown saves lives. In Australia, for example, it appears to have virtually eliminated deaths from seasonal flu, saving about 400 lives in the first half of 2020, compared to the same period last year.

A group of researchers led by Olga Yakusheva, a University of Michigan economist, has sought to estimate the net number of lives saved (or lost) by pandemic-mitigating policies in the US in 2020. The team finds that these public-health measures saved between 913,762 and 2,046,322 lives, but also could result in an "indirect collateral loss" of 84,000 to 514,800 lives, implying 398,962 to 1,962,322 net lives saved. That is a wide range, but still clearly a positive outcome.

Yakusheva and her coauthors seek to avoid contentious ethical issues by taking into account nothing but the number of lives saved or lost. That avoids three key issues that a more adequate assessment of the costs and benefits of lockdowns should face.

First, an adequate assessment would not disregard the difference between dying at 90 and at 20, 30, or 40. As I have contended previously, we should be counting years of life lost or saved, not simply lives.

Second, as Michael Plant and I argued earlier this year, the impact of lockdowns on quality of life matters, too. Lockdowns cause widespread unemployment, for example, and that sharply reduces life satisfaction. Difficult as quality of life is to measure and quantify, a proper accounting of the costs and benefits of lockdown cannot just wave it away.

Third, and perhaps most important of all, we must consider the impact of lockdowns on people who even in normal times are struggling to meet their and their families' basic needs. Governments of countries where many people live in or on the edge of extreme poverty have particularly strong reasons to avoid lockdowns, but governments of developed countries also ought not disregard altogether the fact that a recession in the advanced economies jeopardizes the very survival of people in other countries.

Until this year, extreme poverty had been dropping steadily for the past 20 years. So far in 2020, it has risen by 37 million people. How much of that is caused by lockdowns, rather than by the virus itself, is difficult to say, but the part played by lockdowns would surely be significant.

According to Henrietta Fore, executive director of the United Nations Children's Fund, at the height of the pandemic, 192 countries had closed schools, leaving 1.6 billion children without in-person learning. For many, learning remotely would not have been a possibility. At least 24 million children were projected to have left school permanently. For many girls, that is likely to mean early marriage instead of the prospect of a career. The New York Times recently reported that school closures, combined with the economic hardship caused by the lockdowns, have caused a big increase in child labor in low-income countries.

Even if lockdowns do save lives in the countries that institute them, that isn't sufficient to show that it is the right path for a government to take.

ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

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