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CEOs for President Warren

The Business Roundtable throws shareholders under the bus, even if just for show.

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The Elizabeth Warren Scares Me Roundtable unveiled a new policy statement this week. Oh, wait, I'm mistaken. It was the *Business* Roundtable that issued the new statement. Read it for yourself. There isn't much to object to, unless you are Rep. Alexandria Ocasio-Cortez. "The free-market system," says the roundtable, "is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all."

A central purpose of the corporation, the group adds, is "generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate."

August being a slow news month, introduction of the word "stakeholders" on the way to delivering these bromides is what set the media aflame this week. By whomping up the significance of this rhetorical innovation, we are invited to hurry past an obvious question: How can shareholder wealth ever be created except by satisfying stakeholders, who include customers, workers, suppliers and the communities that create the legal environment in which firms operate?

All of the above participate voluntarily. Apple, one of the signers, has never put a gun to your head and marched you down to the Apple store to buy its products. It doesn't dragoon the best college graduates against their will to work for high pay and generous benefits in a building by Norman Foster.

Widely cited is the 1970 article by the late Milton Friedman, arguing that a public company's purpose is to increase its profits legally and nothing else. Supposedly his wisdom is now obsolete. But his most important words, in the same article, may be a conditional statement questioning whether any corporate sloganeering to the contrary should ever be taken "seriously."

After all, CEOs will still be hired by boards who are elected by shareholders; they will still be rewarded under contracts that pay them for producing sustainable increases in the stock price (that's what those vesting requirements are for). Before this week's statement, CEOs boasted freely about their employee-happiness ratings, their sustainability programs, their diversity efforts, as if these were perfectly consistent with shareholder wealth-maximization duties. What changed?

The press, in trying to make sense of nonsense, reliably takes refuge in the fallacy of conflating shareholder wealth maximization with short-run profit maximization.

These are completely different things. Any company can boost immediate profits by cutting customer service, advertising, product development, etc. But its share price would go down, not up.

Companies maximize shareholder wealth by optimizing (not minimizing, not maximizing) other values like customer happiness and worker satisfaction. If there's a better way, let's hear it. Maybe companies should be required to maximize shareholder wealth, *minus 25%*. How is this to be implemented? And why should America's 3,600 public corporations bear special burdens in this regard? These companies account for less than one-third of the nation's private-sector workforce and a tiny proportion of its 5.6 million employer firms.

An esoteric point is usually lost on the media: Requiring public companies to maximize any other value (such as worker pay) is nothing but an attempt to make them do in an opaque and corrupting way what politicians should do in the full light of day—namely, pay off a favored constituency.

Investors especially have reason to be unhappy with the Business Roundtable. CEOs now may feel slightly more empowered to cling to their jobs even when they are visibly failing investors. The roundtable has put a word salad at their disposal that inevitably will be used to promote policies beneficial to big business but not necessarily beneficial to the economy.

Some will detect an in-kind donation to the Elizabeth Warren campaign. A mighty fig leaf our corporate leaders have afforded themselves if they must powow with President Warren 17 months from now.

In the time-honored phrase, it's better to be at the table than on the menu. Whatever comes out of a Warren administration or a Joe Biden administration or a Donald Trump administration may be bad for business and the economy generally. The job of the politically connected CEO is to make sure it's worse for his competitors and for small businesses that aren't at the table. At least he or she must bring home some plums to weigh against the wealth destruction.

Example: Never too unhappy with Washington are GM and Ford, two of the signers, as long as America's 25% tariff on imported pickup trucks remains in place. The domestic industry could scarcely exist in its present form without this giant tax on its most loyal customers. Its leaders would be judged to have failed in their jobs if it ever were repealed (which any president can do with a stroke of a pen).

The roundtable's Monday statement perhaps does not merit quite as much ink as has been spilled over it. But the eternal struggle between destroyers and creators, rest assured, will remain a strand of this or any nation's politics.

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