

Capitalism in the Public Interest

With capitalism in “crisis” around the world, what form should business activities take in the twenty-first century? **Funabashi Haruo** introduces two attractive options.

Recently participated in two symposia on capitalism back to back, serving as facilitator in the first and as a speaker in the second.

The first symposium was sponsored by the Alliance Forum Foundation and focused on “public interest capitalism.” The second symposium was sponsored by Topos Conference and focused on “prudent capitalism.”

A concept proposed by the entrepreneur Hara Joji (George Hara), public interest capitalism regards the business firm as an organ of society which contributes to society through its business activities. Enterprise value rises when the business firm contributes to all stakeholders, including employees, customers, suppliers, the community and the planet, and this in turn yields profit for shareholders.

Symposium participants held an intense debate over what kind of new standards under public interest capitalism might replace return on equity (ROE) as a criteria for enterprise value and what sort of institutional reforms might be necessary to popularize this view of capitalism.

Hitotsubashi University Professor Emeritus Nonaka Ikujiro, meanwhile, advocates something he calls prudent capitalism. The twentieth century view of capitalism stating that the purpose of the firm is to maximize profits has come to a dead end. In the future, capitalism should achieve social goals. At the same time, action is required to meet the needs of society, communities and individuals, meaning that wise individu-

als who can act on this kind of thinking must become business leaders. Participants held intense discussions on the nature of the traditional wisdom preserved in Japanese society, particularly in the context of the trend toward globalization, and what contributions that wisdom could make to the present state of capitalism.

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A major theme of both symposia was the problem of wealth disparity. One report given at the symposium on public interest capitalism focused on the reorganization of American Airlines. After flight crews agreed to compensation cuts amounting to 34 billion yen, management received stock bonuses amounting to 20 billion yen. Executives justified this action, moreover, by arguing that it was designed for the purpose of adjusting the long-term interests of shareholders and managers based on market valuation. At the symposium on prudent capitalism, participants took up the points made by Thomas Piketty in his book, *Capital in the Twenty-First Century*. Participants noted that, in the immediate postwar period, American companies took care of their employees

as Japanese companies traditionally did and that management never failed to adopt a long-term perspective.

How is it that the United States, followed by Japan, have come to this juncture?

The reason is clear.

The stock market has been hijacked by pension funds and other institutional investors. Underlying this trend has been the aging of the population. Fund managers for CalPERS and other pension funds, acting partly in their own interest, demand that companies raise share prices and dividend payout ratios in order to increase performance each and every quarter. Business firms will ultimately be squeezed dry if they accommodate all of these demands. Symposium participants expressed concern

that such companies would be incapable of creating revolutionary technologies and dazzling new products.

The unbridled pursuit of profits by investors doesn't just exhaust business firms. The end result is that it exhausts society as well. It is directly related to the disappearance of the middle class, the ruin of educational, medical, social welfare and other services, and the deterioration of the global environment and public order. It's not likely that healthy business activity can be maintained under such conditions. Or, will “capital” simply squeeze out what it can squeeze out and then leave in pursuit of its next victim? ■

FUNABASHI Haruo is a historian and CEO of the Sirius Institute Inc.