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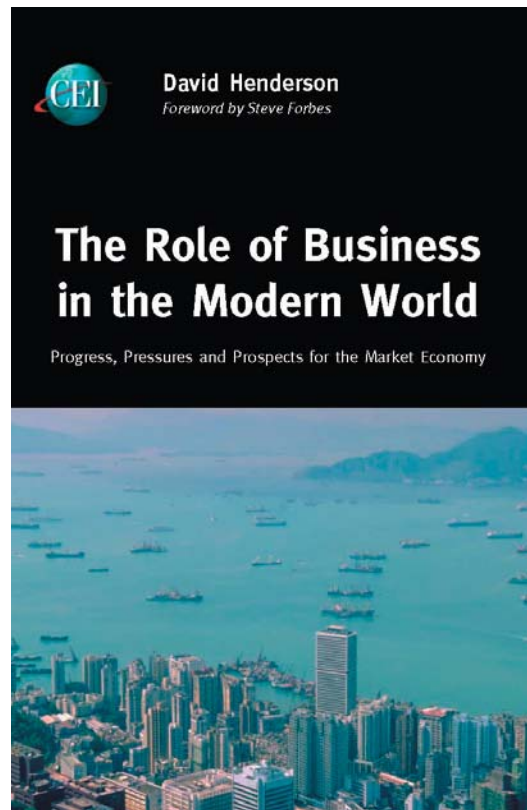
Improving Capitalism

The Respective Roles of Business and Government

by David Henderson

This is an excerpt from the American edition of The Role of Business in the Modern World: Progress, Pressures, and Prospects for the Market Economy by David Henderson, published by CEI in November 2004 (originally published in the United Kingdom by the Institute of Economic Affairs, July 2004).

The purpose of liberalization is to make capitalism function better, chiefly by harnessing profit-oriented businesses more closely to the general welfare. But in such a process the initiative does not rest with the business world. Enterprises themselves are not required to endorse or pursue the goal of improving capitalism along these lines, nor are they called on to act as partners in measures of programs of market-oriented reform. The extent to which liberalization is carried, and the directions that it takes, are determined by governments. Insofar as capitalism is to be improved, and the primary role of business reinforced, by extending the



scope of competitive markets, neither a change of heart nor a redefinition of roles is demanded on the part of businesses.

What if other objectives of policy, and with them other proposals for improving capitalism, are taken into account? Do businesses in this connection have scope today for making a stronger contribution of their own, and should the role and mission of enterprises be redefined accordingly? The doctrine of corporate social responsibility (CSR) gives positive answers to these latter questions. Its advocates believe that businesses have acquired the capability, and with it the duty, to ensure that capitalism now serves the goal of sustainable development: hence the case for “corporate transformation.” By taking the path of CSR, business, working in new creative partnerships with governments and “civil society,” is seen as making capitalism anew.

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This notion is based on a misreading of events and relationships. It attributes to businesses new powers to influence outcomes which they have not in fact acquired. Thus, when the authors of *Walking the Talk* refer to such issues as “the developmental needs of the South” and “the gap between the ‘haves’ and the ‘have-nots’” as now being on the agenda of businesses, they give a wholly unrealistic impression of what enterprises can achieve on their own account, even collectively. Now as in the past, the economic progress of poor countries does not depend on a commitment by companies to further it. As for the gap between “the ‘haves’ and the ‘have-nots,’” it is governments alone which both retain the prime responsibility to decide whether and in what ways this is a problem and have the overwhelmingly greater capacity to address it. Now as in the past, it is governments, not businesses, which can influence the distribution of income through their power to regulate, to levy taxes, to pass social legislation, and to determine the level and composition of public expenditures. The same is true in relation to environmental issues and policies: it is for governments to assess situations and decide on action, and they alone have the power to give economy-wide effect, or even worldwide effect, to what they decide.

The advocates of CSR therefore greatly overstate the extent to which events and outcomes, and the degree to which objectives are realized, are influenced by what businesses decide.

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