

## The ‘Stakeholder Capitalism’ War on the Enlightenment

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No one appreciated the power of capitalism more than its greatest antagonist, Karl Marx. Born of the Enlightenment, embodied in the Industrial Revolution, capitalism, according to Marx, “accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals . . . achieving more massive and colossal productive forces than have all preceding generations together” in “scarce one hundred years.”

Based on the erroneous notion that all value comes from labor, Marx assumed that the financier, entrepreneur and manager were noncontributing claimants on the fruits of the worker’s labor and that government could displace them and then “wither away” as growth occurred spontaneously. Most subsequent collectivists have assumed the same thing. In this utopia, workers would then receive all value created in society.

Government was never able to replicate the efficiency and innovation of private finance, entrepreneurs and managers, and it was freedom and prosperity, not government, that always withered away. But because of the misery Marxism has imposed, the world has a living memory and therefore some natural immunity to a system in which government takes the commanding heights of the economy.

No such immunity exists to the older and therefore more dangerous socialism of the pre-Enlightenment world. In the communal world of the Dark Ages, the worker owed fealty to crown, church, guild and village. Those “stakeholders” extracted a share of the product of the sweat of the worker’s brow and the fruits of his thrift. Growth stagnated as the rewards for effort and thrift were leached away.

The 18th-century Enlightenment liberated mind, soul and property, empowering people to think their own thoughts and ultimately have a voice in their government, worship as they chose, and own the fruits of their own labor and thrift. As Enlightenment economist Adam Smith put it, “the property which every man has in his own labor, as it is the original foundation of all property, so it is the most sacred and inviolable.”

The British Parliament repealed royal charters, permitted businesses to incorporate simply by meeting preset capital requirements, and established the rules of law governing private competition. Most important, laws were made through a process of open deliberation with public votes. This democratic process replaced the intimidation of medieval stakeholders, who under the communal concept of labor and capital took a share of what others produced.

These Enlightenment ideas spawned the Industrial Revolution and gave birth to the modern world, as described by Marx. As people sought their own advancement under a system of private property and the rule of law, as if guided by Adam Smith's "invisible hand," they promoted the public interest without intention or knowledge of doing so. Freedom and self-interest unleashed the world's greatest productive effort and continue to drive progress to this day.

The pre-Enlightenment world was dominated by the powerful, who defined the public interest to benefit themselves and imposed their will on productive members of society. When labor and capital are forced to share what they produce with stakeholders, the reward for working and savings is plundered.

In the post-Enlightenment world, people were empowered to pursue their own private interests. Private interests and free markets accomplished what no benevolent king's redistribution, no loving bishop's charity, no mercantilistic protectionism, and no powerful guild ever did—deliver broad, unending prosperity.

Remarkably, amid the recorded successes of capitalism and failures of socialism rooted in Marxism, pre-enlightenment socialism is re-emerging in the name of stakeholder capitalism. These stakeholders claim that "you did not build your business" and that your labor and thrift should serve their definition of the public interest.

The initial target of this extortion is corporate America. Stakeholders argue that rich capitalists who own big businesses already get more than they deserve. But since roughly 70% of corporate revenues go to labor, the biggest losers in stakeholder capitalism are workers, whose wages will be cannibalized. And of course, the idea that rich capitalists own corporate America is largely a progressive myth. Some 72% of the value of publicly traded companies in America is owned by pensions, 401(k)s, individual retirement accounts, charitable organizations, and insurance companies funding life insurance policies and annuities. The overwhelming majority of involuntary sharers in stakeholder capitalism will be workers and retirees.

The mantra that private wealth must serve the public interest has been boosted by one of capitalism's great innovations, the index fund. What investors gained in the efficiency of the index fund's low fees, they are now losing as index funds use the extraordinary voting power they possess in voting other people's shares. Whether their motives are promoting the marketing of their index funds, doing "good" with other people's money, or, as Warren Buffett's longtime partner Charlie Munger claimed, playing "emperor," they have empowered the environmental, social and governance (ESG) agenda. Other stakeholders are sure to pile

on, as evidenced by Sens. Bernie Sanders and Elizabeth Warren's effort to get [BlackRock](#) to use its share-voting power to pressure a private company to yield to union demands.

Stakeholder capitalism imperils more than prosperity, it imperils democracy itself. Self-proclaimed stakeholders demand that workers and investors serve their interests even though no law has been enacted imposing the ESG agenda.

The fiduciary laws require those entrusted with the investors' money to use it "solely in the interest of . . . for the exclusive purpose of providing benefits to" the investor. The index funds that enable stakeholders to intimidate public boards are violating federal fiduciary requirements and those government agencies that enforce stakeholder capitalism are engaged in an unconstitutional takings under the Fifth Amendment of the Constitution.

In our post-Enlightenment world, public interests beyond the confluence of private interests are defined by the public actions of a constitutionally constrained government. By overturning the Enlightenment, stakeholder capitalism not only endangers capitalism and prosperity, it endangers democracy and freedom as well.