“REIMAGINING CAPITALISM: HOW BUSINESS CAN SAVE THE WORLD” BY REBECCA HENDERSON

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Rebecca Henderson’s *Reimagining Capitalism: How Business Can Save the World* (London: Penguin Business, 2020) is a fascinating and inspirational book that is also very accessible, as it alternates economic theory and business-ethics postulates with concrete cases and anecdotes, which the author has had the opportunity to collect first-hand thanks to her research work in contact with some of the most important companies in the world. Henderson starts from four key assumptions.

First, the market system is the best social system for creating widespread wealth and guiding humanity towards prosperity and progress. This is shown, in the author’s view, by the fact that the world has never stopped getting wealthier since the post-war period. In the last three decades, globalization has reversed its divergent course and global inequality has declined, as has global poverty – the author rightly observes that while in the middle of the last century more than half of the world’s population lived on less than $2 a day, today only 13 per cent of the world’s population lives below this poverty line.

Second, the market system, if left unregulated, can create major and widespread risks that can ultimately endanger the social fabric and even the human species. And this is exactly what, according to the author, is happening. Inequality continues to rise within countries, social mobility has declined everywhere, and even in the United States – once considered the land of opportunity – the poor are finding it harder and harder to become wealthier, small businesses are increasingly coming up against obstacles, and policies supported by the majority of citizens are

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giving way to policies supported by a small but wealthy minority. Finally, of course, the planet is facing a major climate mitigation challenge in which every mistake or delay will be costly paid for by those who will come after us.

Third, there are three reasons, Henderson says, why "markets are failing us" (Henderson 2020: 20). One reason is that companies can freely pass on negative externalities to the community and to future generations, and this also implies, under some circumstances, that the harm they inflict on society is higher than the value they create for shareholders. The typical case is represented by greenhouse gas emissions. Henderson makes the illuminating example of Peabody Energy, the biggest coal company in USA, that in 2018 sold 186.7 million tons of coal for $5.6 billion of revenues, while bringing a social cost (both climate and health costs) of $30 billion (5 times higher than revenue). Another reason – on which the author actually dwells much less in the book – is that the labour market has become so technical and competitive (think, for example, of how automation requires a shift in the workforce from manual labour to IT design and maintenance jobs), and the lack of social mobility has such pervasive effects on access to quality education, that many people do not have the effective opportunity to compete on an equal footing with others. The third, and last reason, is that big companies have such a strong grip on democratic institutions that any political effort to reform them is met with often insurmountable resistance.

Fourth, political scientists showed us that economic actors have the power to change the rules of the game, either through internal reforms or by cooperating with public institutions. Business ethicists, and I would also say moral philosophers more generally, have clearly explained why economic actors have a duty to do so – basically, you don't need robust egalitarian theories to explain why getting rich by emitting CO2 and externalizing costs on others is wrong, it is enough to appeal to the principle that it is wrong to harm others, at least when it is avoidable without incurring unbearable costs. Now the task of economists is to show that reforming capitalism, making it fairer and more sustainable, is also good business. Indeed, in some cases, it is even better business than getting

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rich on the backs of others. The author aims to do just that, to offer reasons to those who are cynical and disillusioned with the concept of stakeholder responsibility – i.e., managers having responsibilities not only towards the owners of the company (in many cases the shareholders) but also towards a wider group of stakeholders, both internal and external to the company, from employees to the local community and future generations.

In a certain sense, since R. Edward Freeman firstly proposed it in a coherent guise (S*trategic management: A stakeholder approach*, Boston: Pitman, 1984) the stakeholder approach has been interpreted, we could say, in both an instrumental and in a non-instrumental way. The proponents of non-instrumental stakeholder approach usually appeal to moral theories of responsibility to explain why those who invest capital cannot simply abstract themselves from society and blindly pursue their own advantage. In this sense, non-instrumental stakeholder theory is normative and hence it rests on self-justifying motives for action which compete with – and in some cases also dominate – the manager's goal of maximizing profits. So, for example, it could be said that employers should strive to offer employees meaningful work, because otherwise they would fall short to treat them as ends in themselves, rather than as means, and in so doing employers would violate Kant's humanity formulation of the categorical imperative – i.e., they would act immorally, at least from a Kantian point of view (see N.E. Bowie, *Business Ethics: A Kantian Perspective, Second Edition*, Cambridge: Cambridge University Press, 2017). Or it could be argued that negative externalities, especially those causing climate change, are wrong because they determine sub-optimal results in terms of collective utility – i.e., the aggregation of individual utils (see J. Broome, *Climate Matters: Ethics in a Warming World*, New York: W.W. Norton and Company, 2012). On the contrary, proponents of instrumental stakeholder approach do not maintain that mangers should be guided by the northern star of morality; they should keep on focusing, instead, on profit maximization for firms. However, they also recognize that the best way for companies to increase value, at least in the medi-

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um and long term, is to take into account the interests of a group of individuals larger than the shareholders' assembly.

Henderson's book follows the instrumental interpretation of the stakeholder approach, although setting it in the midst of the social challenges we will inevitably face between now and the end of this century, and focusing not on a specific issue – e.g., climate, automation, etc. – but on the much more complex and ambitious idea of rethinking capitalism. In other words, the author's message is that if companies, especially large ones, want to continue doing business in the near future, they must not only behave well towards one or more specific stakeholders, but must instead contribute to rewriting the very rules of the game of capitalism. Accordingly, Henderson provides a sort of guide for companies to reform the system that made them rich before it starts to impoverish them (at least relative to the wealth they have now). The guide consists of 5 recommendations, or "pieces".

The first recommendation is to create "shared value" (Henderson 2020: 32) for consumers and more generally for external stakeholders, instead of focusing exclusively on shareholders. Henderson gives various reasons for doing this. One reason is to use "shared value" for increasing demand. She makes the telling example of Unilever, a multinational food company, which succeeded in winning a downward price war in the tea-bag market, between the end of the 2000s and the beginning of the 2010s; a price war which risked, among other things, having devastating consequences for the environment in developing countries. Unilever managers decided to market only sustainable tea, with a 5 per cent increase in raw material costs, and convinced consumers to buy the more costly product through a successful marketing campaign, i.e., by telling consumers that a small economic effort on their part would have been of great benefit to the environment. Another reason to create "shared value" is to reduce risks by anticipating them. The author lingers, in particular, on the future evolution of energy markets, stressing that many players in the sector, the majority of them, are predicting that something substantial may change in the near future, either because renewables will become much cheaper or because public au-

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thorities will intervene to further regulate CO_2 emissions (probably through some forms of carbon pricing), and in view of the probability that we associate with these developments, we can calculate the convenience of anticipating the new scenarios by investing green now.

The second recommendation is to build (or rebuild) the moral contract with workers on the basis of "common values" (Henderson 2020: 85). More simply, we could say, through the sharing of common goals and a fairer allocation of profits. The author makes several examples of purpose-driven organizations, and perhaps the most meaningful is also the most famous one: Mark Bertolini, former CEO of *Aetna* (an American company selling healthcare insurances) announcing, in 2015, that he would raise the minimum wage of Aetna's workers from $12 to $16 dollars and would allow them to buy the most expensive insurances at the minimum price. Bertolini's idea was quite simple: not only it is immoral for a Fortune 50 company selling insurances to have workers paid the minimum allowed by law, but it is also difficult to have workers motivated to sell a basic service that they themselves cannot afford or find difficult to pay for. Bertolini's case, together with many others, demonstrate, at least in Henderson's reading, that investing more in workers' wellbeing (both in terms of salary and of job conditions) is a good investment: it costs less than the return it yields for the company.

The third recommendation is "rewiring finance" (Henderson 2020: 121). One of the reasons why managers find it difficult to follow the first two recommendations is that any short-term decrease in profit aimed at helping to reimagine capitalism would be punished by shareholders. According to the author, this is not because shareholders are cynical (or at least no more cynical than managers), but rather because they tend to associate a fall in profits with poor management. A strong push is therefore needed to develop clear ESG criteria that allow investors to distinguish between cases where managers are bad and those where they are following a strategy aimed at producing shared value and purposes.

The fourth recommendation is that companies should learn to better cooperate, both at the local and global level,

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otherwise freeriding would always remain profitable. Lastly, the fifth recommendation is for companies to strive for inclusive public institutions rather than for less government. Where these institutions are lacking, capitalism becomes extractive, which only exacerbates the negative aspects of markets.

Henderson's book is, in my view, one of the most interesting and original contributions in the literature on the future of capitalism. Its merit is that it has offered, through theoretical analysis and concrete cases, reasons for reforming the market system that even the most cynical and disillusioned economic agents cannot reject as wishful thinking. I think that the title she gives to one of the last chapters of the book could become a philosophical and political motto: "protecting what has made us rich and free". Despite this, at the end of the book one cannot help wondering whether the author has actually succeeded in her aim. My answer is intermediate. Henderson shows clearly and unequivocally that there are some situations where the socially responsible choice is also the one that maximizes the company's return. It is not clear, however, whether the sum of these cases shows that the path to profit always necessarily involves balancing the interests of all stakeholders.

I believe it is impossible to convey the idea that capitalism needs to be re-imagined simply by demonstrating that it is good business, and thus focusing exclusively on what is in the interest of private individuals to do. Making the market fairer and sustainable implies an uptake of responsibility on the part of economic actors that has ethical, rather than economic, roots. And it cannot happen, in my opinion, without clear public interventions based on normative criteria of fair distribution of the benefits and costs of economic growth. It is undeniable, on the other hand, that contributions such as Henderson's can certainly provide the decisive impetus to radically rethink the way individuals interact in the marketplace, by demonstrating, among other things, that more regulation does not necessarily, and always, go against the interests of business.

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