

Committee Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600
Australia – Attention: Anthony Marinac

MANNKAL
ECONOMIC EDUCATION
FOUNDATION

Hayek House
25 Richardson Street, West Perth
Western Australia 6005
Telephone No: (08) 9322 6777
Facsimile No: (08) 9322 6788
Int. Prefix: (+61 8)
e-mail: mannwest@mankal.org
website:mankal.org

Submission to the Parliamentary Committee Inquiry into “Corporate Responsibility”

V.2

Some Thoughts on Capitalism, “Corporate Social Responsibility”, “Sustainable Development” and “Stakeholderism”

From: Ron Manners, Chairman of the Mannkal Economic Education Foundation

- *The Terms of Reference for this inquiry are somewhat concerning as any party lodging a counter-view to today’s clamor for “more corporate responsibility” runs the risk of being accused of being against “corporate responsibility”, which our Foundation is certainly not.*

We are careful about such terms as Corporate Responsibility or Social Responsibility, or Social Justice, as these terms mean entirely different things to different people and there is never a scarcity of people or groups who are keen to spend other people’s money.

“Corporate Responsibility” is like “government” or “fire”.

Each of them, in limited form, can be quite useful but when “out of control” can be destructive.

History is unfortunately littered with many examples of this.

The basic engine that drives Western Civilisation is Capitalism. It is not only the most efficient way of spontaneously organising our lives in society, it is also the most moral way of doing so i.e. voluntarily exchanging values with each other.

Capitalism is the only system under which people can fully respect the rights of others because of its focus on property rights and individual rights.

There is no outside power that can destroy capitalism—it can only be destroyed from within. Lenin and Marx sowed the seeds for this with a perverse and pervasive version of altruism which has been festering ever since.

To the consistent socialist, altruism does not mean benevolence or consideration for other men. Instead, altruism is a political theory which says that man must be compelled to sacrifice himself, and that he must place the interests not only of others but of the collective—the government, the community, society—before his own. His rights, such as they are, are not rights protecting him from the depredation of all men, but are such as are granted by the collective (in practice, the government), and in practice may be changed by those who control the government. Witness the scant protection that our savings, that is, our properties, have in farm land, mining title and irrigation water under

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Western Australian environmental, land use planning and native title law. (No doubt other state laws are similar).

Such altruistic thinking has done so much damage that we even have to re-program the behaviour of mothers with children on aircraft, with announcements that in case of an emergency, they should put the oxygen mask on themselves first, and then they should look after their children, to counter their inclination to put the oxygen mask on their baby first.

Strange how we have to unprogram the irrationality of altruism in this way.

This altruistic thought process has led to an ever-increasing bunch of “hangers-on” who make claims on your labour and property to the point where you are now working harder than ever just to satisfy their demands and necessarily giving less attention to the profitable management of your shareholders’ investments.

The demands of zealots and/or vested interests have led to some ideas being absorbed within ill-defined slogans and to extreme behaviour in the names of these slogans. Sustainable Development, Corporate Social Responsibility, Triple & Quadruple Bottom Lines are prime examples.

These slogans may sound noble but they run the risk of doing more harm than good—for further explanation, please read Professor David Henderson’s books “Misguided Virtues: False Notions of Corporate Social Responsibility” and “The Role of Business in the Modern World” (both available at www.nzbr.org.nz).

Within reason and with due regard for the trust that Boards and Managers owe shareholders, many of these ideas are already incorporated and have been practised for many years under the rubric of “Best Corporate Practice”. But when the clamour and compulsory demands escalate, we run the risk of losing sight of the only bottom line that counts—that is, increasing shareholder value, within lawful bounds.

If we don’t know where to draw the line, we need to find out quickly, simply to defend ourselves.

The Ayn Rand Institute in California runs a Philosophy & Business Seminar, that assists in such defence (www.aynrand.org). The introductory comments to this seminar are quoted as follows:-

“Today’s universities, media, and culture teach an array of deadly business lessons: that profits should not be the goal of business; that CEOs get paid too much and exploit their employees; that ethics and success are in conflict; that businessmen must atone for their success by “giving back to the community.”

In a new two-day seminar, “Philosophy and Business,” Dr. Yaron Brook of the Ayn Rand Institute challenges these anti-business dogmas and the pervasive anti-business philosophy that underlies them. He proposes an alternative philosophy of business, one that affirms the value of business and provides positive principles necessary for businesses to succeed. Topics to be covered include: why entrepreneurs, business leaders, and managers are indispensable to wealth creation and make the greatest contribution to a company’s success or failure; the importance of ethics in any successful business; why the moral goal of business should be to maximize shareholder wealth, not to surrender that wealth to so-called “stakeholders”; and why an ethics of rational self-interest is critical for both a business’s profits and its corporate culture.

The Ayn Rand Institute invites executives and other business professionals to this path-breaking, two-day seminar on the vital role of philosophy in business.”

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- We have recently been advised of a Sydney-based group Enterprise Ethics Pty Ltd (www.enterpriseethics.com.au) where Nigel Richards and colleagues offer *Motivating Through Ethics and Enterprise Ethics Consultancy and Training*.
- Another excellent Australian resource for this topic is “*Deconstructing Corporate Social Responsibility*” by Gary Johns. *Corporate Social Responsibility is a political ideology that wants private interests to be subsumed by public interests, narrowly defined. Choosing the right balance of equality, meritocracy and market orientation for a corporation is a difficult and a never ending job. At best, CSR provides no guide as to how to achieve the right balance, at worst it provides a biased guide.*

Downloadable from http://ipa.org.au/publications/publisting_detail.asp?pubid=441

- CFO magazine (www.cfoweb.com.au) in their Oct. '05 edition (page 14) features an interesting article “*Lawmakers Raise the Stakes – Boards are weighing the possibility of corporate social responsibility becoming a legal requirement*” by Ann-Maree Moodie, which points out the potential conflicts facing directors resulting from any new legislation which may follow the current Parliamentary Joint Committee recommendations. “*Under both the Corporations Act and common law, directors have a duty to act in the best interests of the corporation. In this regard, directors are required to consider the interests of shareholders.*”

For some time now we have all been conditioned with the politically correct line that business shouldn't be ideological and take an independent stand on any issue.

In reality, if we don't take a position, we are, as investors, in the long run, dead. The sooner the stand is taken, the less the pain.

Giving money to the enemies of industry (whether it be the various NGOs or the Fundamental Extremist Environmentalists) in the hope that they will put your company at the bottom of their hit-list, is simply appeasement. Historically, appeasement has never worked: in the end, we will all be picked off, although it can mean that the wolves devour someone else first before they turn on you.

Appeasement may mean that you or your company are not yet at the back of the sledge to be taken by the wolves, but it is a betrayal, not only of one's own values but of all those who share one's values.

Appeasement destroys your credibility with those who look to you for leadership. Who wants to invest in, or work for, a company which is always on the run? One which is forever on the back foot? One which is always apologising for the very things about which they should be proud? What political leader will defend businessmen who can be relied on to lecture him on his weakness as they themselves cut and run?

The mining sector has seen recent examples of corporate collapses and I'm sure they got every bottom line correct, except the one that really counts.

If you come under pressure and start to lose focus, just remember two wise quotations. Samuel Gompers (the first President of the American Federation of Labor) once said,

“The worst crime against working people is a company which fails to operate at a profit.”

The other quotation is specific management advice to any of you who feel that you can serve two masters. The advice insists that business managers cannot serve a triple or quadruple bottom line. Their duty lies to their shareholders, to whom they are in positions of trust.

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St Matthew at Matthew 6:24 quotes Jesus as having said:

“No man can serve two masters or else he will hold to one and despise the other.”

We mentioned corporate collapses and disturbing trends.

This is only my personal opinion, but I’m concerned that one of the weakest links in capitalism at the moment is corporate governance, the relationship between shareholders, directors and managers.

Here we see insider trading, self-dealing, golden parachutes and the latest fad: “fail fees” where they get a big prize for failing. We also see the same in federal and state governments, and even State Governors (specifically Tasmania).

Disturbing events, that demand individual activism, on your part, rather than waiting for things to get to the stage reminiscent of General Motors some years ago where they basically transferred the enterprise value to the employees instead of the shareholders.

In that big unionized company, they tried to get one more year without a calamity by giving the union everything, and then they felt they had to give everyone else (the non-unionists) even more because they were valued employees and not in the union.

G.M. in the U.S., continued to do that for 40 years, running to the point where now the shareholders equity has virtually been destroyed, and their finished product is less attractive to consumers as each car they produce is burdened by a \$2,000 “surcharge” to cover workers healthcare.

Elections

H.L. Mencken once described elections as “an advance auction sale of stolen goods”.

Unfortunately, government creates the great fiction that we can all live at somebody else’s expense and then they spend your money and my money advancing this fiction.

We all know that this is fraudulent, but we don’t do anything about it.

There’s nothing honourable about spending someone else’s money, even on good ends or, even worse, leaving debt to our children, and our grandchildren. It was President Herbert Hoover who once said;

“Blessed are the young, for they shall inherit the national debt.”

The people we should be honouring today are the self-reliant individualists who are prepared to work and support themselves.

Although governments supply some genuine public goods that individuals cooperating voluntarily could not provide for themselves, self-reliant individualists know that, at the margin, sending money to Canberra in the hope that some of it comes back, really doesn’t make much sense. Governments, at all levels, operate at an efficiency rate of around that which would cripple any company.

So what you get from Canberra is what you send to Canberra—less freight both ways, which could consume half of what you’ve paid in tax.

Remember that each time any government talks about spending \$1 billion here, \$4 billion there and \$5 billion somewhere else, they have to collect twice that amount in order to support themselves in the manner to which they’ve become accustomed.

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Now, I wouldn't like you to think that I'm critical of the very existence of government. I am not an anarchist!

There are certain specific legitimate functions that are very important for government to carry out.

Unfortunately, these are continually side-tracked and this fact severely limits their ability to fulfil their correct functions, which are simply defending us with an army, protecting us with a police force, acting as an umpire through the law courts, and land titles, etc., and not very much more. Some do, but I don't mind them assisting the genuinely needy. And by genuinely needy I don't mean people suffering some manageable disadvantage because, in one way or another, we all suffer those. Most public health, education and welfare spending is, however, mere churning—taking from middle-income people to return to middle-income people, often for something that is not their highest priority and always heavily discounted.

Governments certainly shouldn't be trying to control so many aspects of our lives as they do now—for instance, telling us when we can go shopping or, if you own a shop, when you can open your shop and when you must close it.

Nor should they be imposing on the business community and *inflicting* the latest fad from the left, "Corporate Responsibility Mark I, II & III. There already exists, adequate precedents and laws and guidelines, so we should instead be focussing on simplifying the current quagmire, rather than introducing even more impediments to commerce.

Unfortunately, we've employed governments without giving them specific job descriptions, so it's not completely their fault when they overstep the mark.

Of one thing I am certain. You won't learn about restrictions that should be imposed on governments from schools funded and controlled by governments or from most political parties.

That's part of the challenging role for the Mannkal Foundation and the hundreds of free-market economic think-tanks springing up all around the world.

Why will these think-tanks be more effective than they were 20 or 30 years ago?

There are now thousands of books and articles demonstrating the superiority of the free-market, including popular books espousing the philosophy of *liberty*.

Liberty. It's a simple idea, but it's also the linchpin of a complex system of values and practices; justice, prosperity, responsibility, toleration, cooperation, and peace. Many people believe that liberty is the core political value of modern civilization itself, the one that gives substance and form to all the other values of social life.

Almost no such books existed a generation ago. A rising tide of Australians are now aware that government, not the market, is the cause of inflation, depression and poverty.

These people are waiting in the wings and refining alternatives to big government programmes that continue to consume the days and years of our lives.

If you are interested or tempted to download information from these think-tanks, please visit the Websites of:

The Centre for Independent Studies (CIS):-

<http://www.cis.org.au/>

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The Institute for Public Affairs (IPA):-

<http://www.ipa.org.au/>

or our own, Mannkal Economic Education Foundation

<http://www.mannkal.org>

A handwritten signature in black ink that reads "Ron Manners." The signature is written in a cursive style with a period at the end.

Submitted by:

Ron Manners,

Chairman, Mannkal Economic Education Foundation

Chairman, Croesus Mining NL

Chairman, DeGrey Mining Ltd

Chairman, Mannwest Group

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