

Wellington Rotary Club

The Role of Business in Society

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THE ROLE OF BUSINESS IN SOCIETY

I want to take this opportunity to reflect on the role of business. What does business contribute to society? How is business viewed by the community? What are some of the misconceptions about business? How do they arise?

It is easy to overlook how much we depend on business. The food we eat, the homes we live in, the clothes we wear, the cars we drive, the medicine that protects our health and all the comforts we take for granted come to us only because people in business have produced and delivered them.

A movie, for example, isn't just a creative work of fiction. What you enjoy on the screen is the work of hundreds of business people who designed and built the film making equipment, raised the money to finance the project, hired and paid the actors and production people, distributed the film, ran the advertising and operated the theatre where you sit and watch the movie.

All these business people invested their money, their time and their skills to entertain you, the consumer. They don't get their money back, let alone make a profit, unless you decide to see the movie. So they will work tirelessly to deliver the kind of movie you want to see, even if it is one that portrays business people in a bad light.

Business has one primary role and one only: to serve consumers. The government's job is to set the rules of the economic game so that businesses do so.

In the past, the rules of the game in New Zealand were not set that way. Governments created all sorts of rules to protect producers, and then created another set to stop them becoming too profitable. Producers' interests dominated those of consumers, who ended up with a poor deal. As we have moved from protection all round to competition all round, consumers' interests have become paramount. Competition is forcing businesses to give consumers what they want, or to go out of business.

Of course, the moves to empower consumers were resisted for a long time by many in business, as they are today in the public sector where the government is introducing the disciplines of competition into such large enterprises as health and education. In health, it is moving to buy services on behalf of consumers from competing public and private suppliers. In education, where the state system is one of the few remaining quasi-monopolies in the economy, similar moves are needed to give consumers a better deal.

Businesses compete with one another to give better value for the customer's dollar. The name of the game is always to make a better mousetrap. The supermarket has been one of the 20th century's great innovations in bringing lower priced and better quality goods to the mass of consumers. In the developed countries we owe to modern business the highest standard of living in the history of the world.

Of course, business people don't serve consumers primarily out of altruism: they do so to make money, and so improve their own living standards. It is a nice irony that

the more money they want to make - the more self-interested and greedy they are, as the critics of the market system would put it - the harder and smarter they have to work to persuade consumers to part with their dollars. For many of them - in corner dairies, on farms, or at the head of large corporations - this means 12 to 16 hour days and six or seven day weeks as a matter of routine. And it may mean risking all they have if their venture is unsuccessful.

Some in the so-called caring professions affect disdain for the material rewards associated with business. But it is interesting to note that in the health sector some angels of mercy recently became flying pickets when changes to their working conditions were proposed. And in education, industrial action has slowed down desirable curriculum initiatives as part of a campaign to protect teachers' conditions of service. Are the claims of protecting the health system and the education system really to be taken at face value?

As the failure of utopian experiments down the centuries has shown, it is futile to seek to organise the world as if self-interest did not play a role in people's behaviour. I consult the census returns every five years to see whether the number of people recording their occupation as saints has grown, but in vain. The trick is to channel natural habits of self-interest, in business as in any other sphere, in socially valuable directions.

Moreover, self-interest is not the same as selfishness. It is entirely consistent with concern for others' needs, and it does not exclude altruistic behaviour. Why should we regard as selfish a commercial endeavour that is creative and socially beneficial, and which widens the bonds between individuals, communities and peoples, simply because it pays the bills? Why is self-fulfilment in business seen as selfish, whereas other forms of self-fulfilment which make minimal contributions to the public good are not?

The primary function of business, therefore, is to be an efficient producer of goods and services that are valued by consumers. There doesn't have to be another justification for business. But in the process, business provides other benefits. For example, it supplies work. Consumers, through their demands on business, create jobs. As Sir Arvi Parbo, a leading Australian business figure, put it recently, the best social welfare policy "is the creation of good quality, well paying, interesting and stable jobs." Four out of every five members of the New Zealand workforce are employed by private businesses. And business provides opportunities for people to earn income on their savings through investments in firms. Too often we forget that what hurts business, what distracts it from its task, what disturbs its normal activities, will hurt us all as workers, savers and consumers.

More broadly, business is the instrument which has freed many people from mindless toil. Over the past 200 years it has transformed the way we live. It has unleashed a host of creative forces in technology and the arts. It has expanded the opportunities for travel, learning, leisure and entertainment. Business is the vehicle through which countless individuals apply their talents to achieve their own aspirations and to the service of others.

What attitudes towards business are held by the community? The picture as I see it is a mixed one worldwide. In most parts of Asia and the United States, for example, the status of business is not generally in question. For the ordinary American, the

number one hero is the entrepreneur who succeeds, and the number two hero is the entrepreneur who fails. But even in those countries where the system of democratic capitalism is most deep-rooted, there are those who mistrust or despise business (and not just because of business practices that are rightly to be condemned).

The social collectivism of New Zealand in recent decades, and the anti-competitive culture that it bred, was hostile to business values. Thirty years ago a career in business enjoyed low status. As Sir Robert Jones recently observed, the ultimate prestige career was the diplomatic service, and other top graduates went into the professions, government or academia. With few exceptions, only the drop-outs chose business. The fact that many more of the best and brightest are seeking management careers today is one positive sign of a changing culture.

Another positive sign is the ranking of business in terms of the public's confidence in New Zealand institutions. A Massey University survey published earlier this year found that three quarters of New Zealanders have at least some confidence in business and industry whereas only a third have at least some confidence in parliament and government departments. Conceivably this ranking has been harmed in recent months by political allegations of business misconduct and improper business influence on politics. None of these allegations has been proven, but reckless and irresponsible claims of this kind damage the reputation of business and public confidence in New Zealand institutions.

Despite these positive indications of the standing of business, I believe there are too many negative attitudes towards business which are unhealthy for our society.

Much of the public's knowledge about business comes from sources such as politicians, teachers, historians, the media and the entertainment industry. Very few of them have any first hand understanding of how business operates. As a result, much of what we are taught and told about business is incorrect and sometimes malicious.

Politicians frequently play on the public's ignorance of business to enlarge their own domain. They exploit the myths of corporate greed and unrestrained power to justify taxing and regulating business in the name of consumer protection.

But when a company must bear new costs imposed by politicians or when its resources are consumed complying with regulations, it has no choice but to raise its prices or reduce the quality of the service it provides. The result is that the consumer pays higher prices, or gets an inferior product, or the company goes out of business because it can no longer afford to provide what consumers want at a price they are willing to pay. The politician may have won some votes from a special interest group, but it is hard to see what the community in general has gained.

Education is another source of misconceived ideas about business. Take social studies, which is taught up to form four. Social studies used to be a mix of geography, history and economics. Whilst older teachers may retain some of the former content, modern social studies are weighted towards anti-racism, anti-sexism and environmentalism. These may be valuable aspects of learning, but unfortunately the politically correct ethos contains a strong anti-business bias. I am told that many students come away believing that businesses are out to dupe gullible consumers, employers exploit women workers and factories destroy the environment. To the

extent that these things actually occur, the circumstances which give rise to them or prevent them happening are not analysed.

Too often social studies today fail to equip children with a grounding in economic ideas. Simple concepts such as how prices are set, how money flows, the effects of taxes on profit and the significance of debt are not included as core knowledge. Failure to teach such basic facts gives rise to a profound and dangerous ignorance.

In history classes, I am told children are taught to universally despise the early New Zealand traders. There was something inherently selfish in what the traders were doing. Their business was not to trade but to exploit. The fact that Maori enterprise blossomed in extraordinary ways in the 1840-1860 period is conveniently overlooked. In reality, of course, it was through government action that many Maori were progressively stripped of resources and deprived of freedom to trade. Business was not the exploiter.

It is also interesting that schools - both primary and secondary - have special days and weeks like environment week, Earth day, health week, Maori language week, book week and 40-hour famines, but seldom, if ever, business weeks. Firms are often astonished at how little school leavers know about the world of work. A former British minister observed that schools in Britain taught nothing about free markets but did convey a sense that there was something not quite nice about the entrepreneurial spirit. Do we have the same problem? Are children being short-changed in their preparation for working life?

Literature is another source of distorting ideas about business. The fiction of writers like Dickens, describing characters like Scrooge, child labour and the dark satanic mills, has given us an unreal picture of the industrial revolution and 19th century England. It has obscured the fact that the average real wages of the ordinary worker quadrupled between 1800 and 1900, infant mortality fell sharply, life expectancy increased, education standards rose long before the state became involved, the average diet of Londoners by 1850 compared favourably with today's standards and the incidence of slum housing progressively diminished. Although the population grew, productivity and incomes grew faster and the predictions of starvation of the Reverend Thomas Malthus never eventuated: he was not the last member of the church not to understand how an economy works.

To the puzzlement of Marx and Engels, the working classes of England failed to revolt. They benefited from the peaceful transformation of a society that turned away from mercantilism, repealed the corn laws and adopted the policies of Adam Smith and the thinkers of the Enlightenment. To be sure, poverty was not totally eliminated, but the industrial revolution was the most effective anti-poverty programme the world had ever known. Contrary to the Dickensian view, the period was, as J M Keynes put it, "a magnificent century."

Today's Dickensian characters are the tycoons in TV shows like *Dallas* and movies like Oliver Stone's *Wall Street*, and are just about as fictional. I doubt that there are many such types that last for long in the real world.

When it comes to greed, I am always puzzled as to why people pick exclusively on the so-called high-flying entrepreneurs of the 1980s and neglect those who sought to

make a fast buck by buying shares in their firms. Nobody forced them to make those investments. Where they were the victims of criminal behaviour, those responsible should be visited with the full force of the law, but where they forgot the relationship between risk and reward, which was the usual situation, they do not deserve special sympathy. Nor should we admire the form of greed that seeks to take other people's money by electing politicians who will transfer it to special interest groups, which is perhaps the most pervasive form of greed in modern democracies.

A final example of misconceptions surrounding business is the role of profits. The profit figure for a business like the Electricity Corporation can be labelled as obscene, neglecting the fact that on some measures it is the largest business in the country and that the returns to its shareholders have more often than not been below those from government bonds. To read some reactions, one would be led to think that the community would be better off if businesses did not make profits. But a business without profits is one that may have to lay off workers, may be unable to spend money improving the quality of its products, or may have to drop out of the market, lessening the competition that protects consumers' interests. We need businesses earning good profits, not only so that those who have saved directly or through pension funds to invest in them are rewarded, but also to justify the further investments that will create tomorrow's jobs.

It is not my purpose to put business up on any sort of pedestal. Business is just the ordinary stuff of life, whether it takes the form of trading at a flea market on Saturday morning or buying an Australian brewery. Like other ventures in life, some businesses succeed and some fail. And we know that some people in business have feet of clay, as do some lawyers, some politicians and some people in every other walk of life.

On the other hand, we undermine the standing of business through mythmaking about it to our considerable cost. Business is the wealth-creating institution of society. Business will always be under attack, especially by intellectuals and others who are not in the business of creating wealth. They tend to regard themselves as the cleverest people in society but not the best rewarded, and they resent the workings of the market place which accords them no special significance. A society interested in the advancement of ordinary people must be on its guard against such attacks.

The standard of living in this country is no longer high relative to the standards in countries which have created a better environment for business growth. More than two generations of protectionism and state control stifled entrepreneurship and a business culture. Despite some painful learning experiences, the last few years have seen a remarkable change for the better. Real growth is now occurring. We are steadily building more efficient, well-managed, internationally competitive businesses - small, medium-sized and large. They will be the foundation for improvements in living standards over time.

But, as the American writer Irving Kristol has put it:

"A market economy depends on a large degree of economic sophistication among the citizenry, and this level of economic sophistication can only be achieved and sustained by ceaseless economic education of an elementary but fundamental kind. This is hard, uphill work because backsliding is equally ceaseless. Nevertheless it can be done."

I suggest that getting rid of some of the spurious notions about business, respecting business success, and ensuring that our children grow up with a better understanding of business would be a good start in this process. We must continue with this uphill work in order to stay on the more promising path we are now on.