# Warren Buffett on why companies cannot be moral arbiters

## Sage of Omaha says it is wrong for business to impose views on society

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Berkshire Hathaway has poured about $30bn into wind turbines and infrastructure in Iowa through one of the many businesses it owns. The goal is to turn the state into "the wind capital of the world, the Saudi Arabia of wind".

Another kind of capitalist would go on to say that moving from fossil fuel to renewable energy reflected the responsibility of his companies to society, a matter of "doing well by doing good". Such is the current corporate consensus, expressed — sincerely or not — in annual reports and advertisements by companies across the globe.

But Berkshire's Warren Buffett is having none of it. He was investing in wind only because the government paid him to do so: "We wouldn't do [it] without the production tax credit we get."

The so-called Sage of Omaha went further. It was wrong, he said during an interview with the Financial Times earlier this year, for companies to impose their views of "doing good" on society. What made them think they knew better? "It's very hard to do. If you give me the 20 largest companies, I don't know which of the 20 behaves the best, really. I've been a director of 20 publicly owned [companies] and I think it's very hard to evaluate what they're doing . . . it's very, very hard. I like to eat candy. Is candy good for me or not? I don't know."

And even if Berkshire's management did know what was right for the world, it would be wrong to invest on that basis because they were just the agents for the company's shareholders. "This is the shareholders' money," he said. At Berkshire, charitable contributions are ruled out on principle. "Many corporate managers deplore governmental allocation of the taxpayer's dollar, but embrace enthusiastically their own allocation of the shareholder's dollar," he noted wryly.

It is a remarkable comment on the current moment that Mr Buffett's expressed view of the company makes him exceptional. The University of Chicago economist Milton Friedman wrote 50 years ago that "the social responsibility of business is to increase its profits". Until recently, that view was gospel, from business schools to boardrooms.

After his success in creating immense wealth for Berkshire Hathaway, Mr Buffett's greatest achievement may be the creation of an unassailable public image as capitalism's kindly grandpa. This gives him room to say what others dare only think. But Mr Buffett is not entirely alone.

Robert Shillman, chairman of industrial sensor company Cognex, used the company's last annual report to "express my concern over this trend of bashing both our free enterprise system and our businesses".

He took particular issue with "oversight over corporations . . . in particular regarding environmental, social, and governance issues (ESG)". While the government had not yet succeeded in imposing oversight over companies' ESG activities, "unfortunately, that is not the case for large, institutional fund managers".

Asset managers, he argued, were out of line in using their proxy voting power, loaned to them by the investors in mutual funds, to "pressure 'their' companies to include ESG factors when making business decisions".

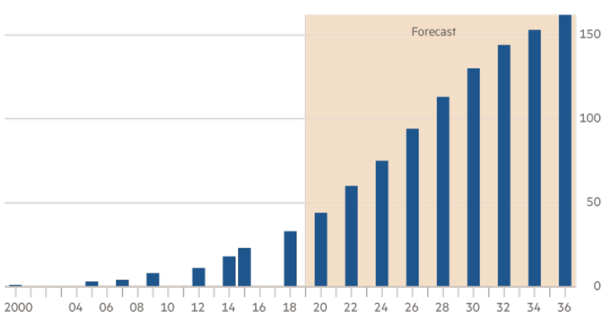
"If they asked [the fund investors], 'Do you want the board of directors and the managers of your companies to spend time and energy on environmental, social and governance issues or do you want them to spend all of their time and energy on increasing the value of your shares?', I'm rather sure that an overwhelming number of them would choose the latter." Moral Money Moral Money is our new weekly newsletter covering sustainable business, finance and investing. Sign up here for breaking news and insightful analysis on this bubbling revolution.

The runaway growth of ESG-driven investment funds in recent years suggests that Mr Shillman may be wrong. But advocates for "stakeholder" capitalism, which considers the interests of other groups such as employees and the community, would also argue that his question presupposes a false choice, because if capitalism does not do more to bring about a better society, companies' licence to operate may be revoked.

As Alan Schwartz, chairman of the investment bank Guggenheim Partners, put it earlier this year, "throughout centuries what we've seen when the masses think the elites have too much, one of two things happens: legislation to redistribute the wealth . . . or revolution to redistribute poverty."

Investors set to pour trillions more into ESG funds

Global assets with an ESG mandate ($tn)




Based on available data

Sources: Deutsche Bank; Global Sustainable Investment Alliance

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But even among those who agree that capitalism has become dangerously unstable, not all agree that the fundamental problem is myopic focus on shareholder returns. Paul Singer, who runs the activist hedge fund Elliott Management, takes the opposite view. It is the self-serving behaviour of boards and management, abetted by bad government policy, that have created the sense that capitalism is a rigged game.

According to Mr Singer, corporate capitalism is a system in which investors owned corporations, investors appointed a board to set corporate strategy and the board hired a management team to execute the strategy. The current reality, said Mr Singer at a conference in 2017, was that management picked the board and chose a strategy for its own benefit. Investors were secondary. "What's come to pass in American capitalism is . . . a tremendous amount of stultification," he said. The paradigmatic example, he said, were the risk-hungry managements and weak boards at the big banks that caused the financial crisis.

The policy response to the crisis, loose monetary policy, only increased dissatisfaction with capitalism by driving up asset prices without helping most citizens. "The financial sector [and] asset owners are doing fantastically, and the middle class is under tremendous pressure and that is part of the populist edginess which is . . . calling into question the broad acceptance of economic freedom." What is needed, in other words, is a purer and harder version of shareholder capitalism, not a softening of it.

Mr Buffett has a simpler vision for making a better society. He thinks it is government policy, not capitalism, that must drive change. He used the example of Berkshire's remaining coal power plants.

"If people want us to junk our coal plants, either our shareholders or the consumer is going to pay for it. You can argue that unfortunately the consumer pays for it, but then the trouble is they pay for it if they happen to live in the place where a utility has 50 per cent [of their energy] coming from coal. If they happen to be in some other territory, they don't pay for it. So, there's a cost to somebody . . . the question is how it gets absorbed, but overwhelmingly that has to be a governmental activity."

"The government," said perhaps the greatest living capitalist, "has to play the part of modifying a market system."