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## In defense of business

By Richard W. Rahn

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If you are saving money for retirement or to put a child through school, would you be likelier to buy the stock of a company with a reputation for providing a good return to its shareholders or one that prides itself on its "social responsibility"? You may like to do both, but the evidence is companies that change their focus from benefiting their shareholders to "social responsibility" often end up providing much lower total returns to their shareholders.

In one of the great ironies, an organization calling itself Business Ethics (which rates companies by a social responsibility index that includes such things as "diversity," "concern for the environment," etc.) gave its "2004 Best Corporate Citizen" award to Fannie Mae. You may recall a number of the senior executives of Fannie Mae, including its chief executive and chief financial officers, had to resign and face charges for improper accounting, and so forth.

Adding to the irony is that Fannie Mae is a U.S. government-chartered corporation and some of its directors are appointed through a political process, and its misdeeds led to a negative return for shareholders, despite having the advantage over competitors of an implicit U.S. government financial guarantee. (Its former, disgraced CEO was previously President Clinton's head of the Office of Management and Budget.)

Yet this, at least partly, corrupt and incompetent organization is the poster child for the labor and environmental left's war against corporate America.

If one looks at the lists of the most "socially responsible" companies, according to the criteria of the radical environmentalists and labor unions, you find on average many more poor stock market performers than among businesses that focus on business. Businesses must obey the law and operate responsibly and ethically, but they do not have the responsibility to function as a social welfare organization.

Many critics of corporate America and businesses in general fail to understand a society creates different institutions for different functions, and it is in everyone's interest that these separate functions are not co-mingled. Government is established to create the rules, protect property and person, and ensure liberty and equal justice for all. Churches serve the spiritual and, often even, material needs of their members. Private charities serve many laudable welfare and educational needs and hence receive special tax privileges as nonprofits.

Businesses are created to provide profit for their owners. Profits come to those who provide useful and desired goods and services to other citizens. Businesses pursuing profit create real jobs, advance technology and, in so doing, make the world better for everyone. Governments, because of their own failures, often try to force businesses to become law enforcement agents; hence, financial businesses are expected to catch money-launderers and drug dealers, and almost all businesses are expected to become immigration enforcers. These are tasks for which businesses are ill-equipped, and they rightfully belong to government.

All too many major corporations have succumbed to the blackmail of radical environmental (such as the "Rainforest Action Network") and labor organizations, which, with the complicity of some in the media, falsely libel companies, threaten boycotts and employees and, at times, even destroy company property. As a result, many companies donate (or contribute through their foundations) to organizations that deliberately seek to weaken the company, thus reducing income to the shareholders and destroying jobs.

Fortunately, there is a nonprofit group in Washington, D.C., the Capital Research Center (CRC), which has the courage to expose the ongoing blackmail of corporate America, and those companies and executives that have surrendered to it. CRC deserves a badge of honor because it is feared by the radical environmentalists, leftist unions, and corporate wimps as month after month it exposes their unsavory practices in its Web site and publications.

Too many business leaders who fail to recognize the dangers of outside groups with destructive agendas have set their companies up for blackmail and unfair and abusive media treatment. They react only when under direct attack rather than anticipating and preparing for likely events.

Those businesses most effective in preventing unwarranted attacks and able to defend themselves with many allies often have actively worked with and supported their own business associations and independent free-market-oriented public-policy organizations. Defending capitalism, the business environment, and the activities of one's own business are as important as defending the company against an aggressive competitor.

Taxes, regulations, and radical outside groups' activities are often more important to the bottom line than even product development and placement, and businesses that underinvest in protecting themselves from assaults do so at their peril.

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