

Opinion **Capitalism**

## Fifty years of shareholder value have swollen monopoly power

We will not leave Friedman's doctrine behind until there is a European movement to rebuild competition

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Milton Friedman's argument was considered outrageous in 1970, and is again being criticised today © Reportagebild/AP

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Fifty years ago on Sunday, Milton Friedman published the article that would guarantee his lasting influence. "[The Social Responsibility of Business is to Increase its Profits](#)" became the canonical statement on shareholder value, with Friedman giving conflicted chief executives a simple guiding principle: when in doubt, maximise profits.

Friedman's argument was considered outrageous in 1970, and is again being criticised today. The influential US Business Roundtable group of executives publicly rejected the primacy of shareholder value last year and many companies and investors tout their focus on stakeholders and sustainability.

Yet we remain captured by Friedman's legacy. Business may talk the talk of corporate responsibility, but it is walking a different walk. Working as a competition lawyer in the City of London, I saw first hand as executives competed to dominate markets and push share prices ever higher.

Competition law is meant to check corporate power, yet markets are growing more concentrated under regulators' noses. Stanford University economist Mordecai Kurz calculated in 2015 that [82 per cent of stock market value](#) came from the tech sector's "monopoly wealth". It may be more now: a tech-friendly pandemic has seen prices soar.

For users, choice is often an illusion. Take dating apps: you might choose OKCupid, Tinder or Hinge but all three are owned by Match.com. Google and Facebook have built an online advertising duopoly. A handful of companies control global agribusiness. Amazon now part-owns Deliveroo. Paralysed regulators have been complicit.

Concentrated markets are often linked to growing inequality, disempowerment of workers, hollowing out of communities and environmental harm — all problems that stakeholder capitalists say they are trying to fix. Monopolised industries tend to operate by their own, self-reflexive logic, with the interests of incumbents automatically equated to those of the industry. When regulators do catch up to the titans, the fines levied can be easily absorbed as a cost of doing business. Whether it is DuPont's [\\$671m](#) payout for poisoning the water in West Virginia or Facebook's [\\$5bn settlement](#) for the Cambridge Analytica scandal, investors barely blink. Consumers have little place to turn.

Companies that are guided by an ethical duty must contend with competitors that believe that monopoly will trump morality. Companies such as Amazon and Uber swallowed year after year of losses as they bankrupted rivals and built market share. Once entrenched, these systemically important companies will not budge.

Remember that Friedman added a caveat to his "profits first" edict. Business should maximise earnings "so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud". Yet the historic emphasis on shareholder value has led some companies to seek monopoly power by controlling the rules of the game, and even through deception and fraud. That distorts the very idea of competition.

Gigantic corporations have their own gravitational pull, morphing into economic black holes. Stakeholder capitalism will not be able to resist the drag. We must disperse economic concentrations, democratise corporate power and dissolve monopolies that are able to distort markets and society. Voluntary efforts by business will not be enough. Competition law and corporate law must be used to their full potential.

America gave us both Friedman and Silicon Valley, fostering the perception that this is a US problem. But we are all at the mercy of global as well as homegrown monopolies. We need a European movement to rebuild competition, to protect our democracy and the hope of a resilient future. Only then will we leave Friedman's doctrine behind.

