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MISSION-DRIVEN CAPITALISM
FOR SMALL BUSINESS OWNERS IN THE U.S.

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Abstract: The "use value" of assets in the classical paradigm allowed distinction between those held by capitalists and those held by rentiers. Most small businesses in the United States operate more akin to the model of rentiers than capitalists. Ironically, long run equilibrium in the Marshallian competitive system between total revenue and total cost describes both the small business and the nonprofit sectors. Nonprofits, of course, are mission driven, owned publically rather than privately, and governed by appointed boards of directors. It is argued that analogous to nonprofits, privately owned small businesses in the United States should become mission driven.

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1. PSEUDO-CAPITALISM

The U.S. has become the locus of spectacular frauds, both legal and illegal, precipitating the international financial crisis of 2008. The term I use to describe U.S.-style speculative corporate capitalism is “pseudo-capitalism.” Doctrinally, it grows out of a “glitch” in the conventional neoclassical paradigm. Because the rate of profit—otherwise the reward for holding capital—is not specified, there may eventually become no practical distinction between asset placements by capitalists and asset placements by rentiers. Thus, the “profit lacuna” contributes to gullibility on the part of those who “oversee” what John Kenneth Galbraith called “the conventional wisdom.” Policy makers insulate themselves against the reality that otherwise legitimate capitalists may be motivated to seek equivalent rewards by operating as pseudo-capitalist rentiers, instead. A consequence is that society becomes increasingly subjected to fraudulent acts, and also denied the extra skill, industry and legitimate risk-taking associated historically with capitalist ventures.

In order to set the conventional pseudo-capitalist wisdom aright, first it becomes necessary to address the matter doctrinally. This includes a thorough, thoughtful searching—particularly by the faculties of MBA and other economic-based professional programs—in order to “deconstruct” business strategy-setting, then to refocus upon ethical implications. Ultimately the resolution of the profit lacuna requires the polity—rather than the “free” market—to set the appropriate rate of profit on capital. First, however, in wealthy societies, the polity must determine the economic path from the present, toward the future, and the programs essential to that end. Capital, then, definitionally, becomes the means to that end. Asset placements consistent with society’s vision of what is wanted for the future become designated as capital, worthy of receiving a capitalist’s reward. On the other hand, asset placements that do not are deemed to be rentier-held assets, only. These may be “neutral” in the sense they merely maintain society in its present course, rather than leading it toward new accomplishments. Indeed, maintenance may be both desirable and essential, depending upon the situation.

The rentier is similar to the lord of the manor in feudal society, in many respects. He rented land and perhaps loaned finance, and was a force stabilizing and sustaining the status quo against rapid change. This may have either salutatory or non-salutary consequences, depending upon the polity’s values for stability, juxtaposed against values favoring dynamic change. All other things considered, rentiers may not be “bad guys” or “good guys,” per se. Certainly they become bad guys, however, to the extent they fraudulently seek to obtain the higher reward that society decrees for the capitalist.

Tax and regulatory incentives, primarily, become the vehicles for transmitting the profit differential. Rentiers under this proposal would qualify only for the Marshallian reward for waiting to consume. Indeed, in the long run the Marshallian reward is just sufficient to motivate rentiers to retain their assets in status quo use.

Large changes, of course, should be in store for governance of U.S.-based corporations. President Barak Obama’s programmatic initiatives will be observed carefully, publically, with a level of interest appropriate to recent, stunning disclosures of corporate malfeasance, particularly in the financial services industry. One implication is that financial services, particularly, may become subjected to strategic and exacting oversight. Financial innovation, for instance, should

qualify as capitalist-driven rather than rentier-driven only to the extent it coincides with—and is essential to—the attainment of society's vision. Therefore, as corporations are rechartered, their preferred status as legal "person" should be extended, conditionally, it is argued, according to how their proposed missions may articulate with society's preferred vision. The implications of crafting an explicit social welfare function, of course, are profound.

2. NORMAL VS. ECONOMIC PROFIT

In the Marshallian system—the staple of undergraduate instruction in the United States—under assumed conditions of perfect competition, ironically, the entrepreneur is actually a rentier, at least over the long run. Any short-term economic profits become bid away as new firms are attracted to enter, tapping into the industry's profit potential. Ultimately the representative firm earns just a normal profit, sufficient for it to remain because its asset placements, if liquefied, could do no better elsewhere. Definitionally, this is consistent with the rate of return on asset placements by rentiers.

In the long-run competitive situation, then, total revenue is equal to total cost, where normal profit (not economic profit) is computed as a necessary cost of doing business. Somewhat ironically, these are the same technical conditions under which organizations operate within the nonprofit sector. That is, a nonprofit entity is defined as one in which total revenue is equal to total cost over the long run, with normal costs also including 1) "Rainy day" reserves, 2) Resources for prudent expansion, and 3) Replacement of worn assets.

Fundamental differences between private (nonprofit) firms and "third sector" nonprofit organizations, of course, pertain to mission and to organizational governance. For the typical U.S. firm, mission is currently that of making a profit, only. Governance is entirely by the firm's private owners who accrue "profit" or sustain loss. For nonprofits, on the other hand, mission is set according to some aspect of service to the common good and governance is by appointed boards of directors who hire and retain executive directors. Also, in the event of demise, in the private sector the owners retain any financial residual. In the nonprofit situation, however, any residual must be passed to another nonprofit. Private individuals and firms never share in a nonprofit's surplus or residual distributions, except of course in cases where fraud may be present.

Not only are capital assets heterogeneous, but output also is heterogeneous, it is argued. Not every dollar of GDP makes an equal contribution to social welfare. Indeed, the widespread prevalence of business malfeasance now requires society's social welfare function to be made explicit, as earlier claimed. Recently the United States is struggling with "bailouts," including various scenarios for bailing out the domestic automobile industry. In such a "pick the survivors" environment, these struggling corporations may be publically sustained only within the context of new public demands for higher standards of performance and accountability.

The previous short-term winning strategy by Detroit automakers had as its centerpiece the production of vast quantities of fuel inefficient and environmentally degrading, large sport utility vehicles (SUV's). These are now becoming somewhat verboten, publically, particularly in the

wake of extraordinarily high petroleum prices through the third quarter of 2008. One may ask, then, is one more dollar's worth of SUV output equivalent to one more dollar's worth of output that is both fuel-efficient and environmentally less damaging? The answer, I believe, in light of America's quickly changing values on this subject, is that GDP—created in the auto industry or elsewhere—is unlikely to be considered as homogeneous, going forward.

3. USE VALUE OF ASSETS

The concealing of capital "use value" as a characteristic of the prevailing neoclassical paradigm had enormous implications for inefficacious economic policy outcomes. Within the classical system, of course, the use-value of an asset could be traced. A horse in the field, pulling a plow, for instance, would qualify as a productive capital placement. If the horse should be permanently removed from the field and tethered by the farmer's door for the pleasure of his children, however, then "capital" would have been removed from productive use. That is, its use-value would have shifted from a capitalist controlled asset to one controlled by an individual qua rentier.

Again, capital must now be determined on the basis of its use value, juxtaposed against a social welfare function. Indeed, no aspect of the Obama presidency is more important that the crafting of a politically viable vision for the future, and a plan for allocating shared sacrifice to bring that vision into reality.

Emergent "mission-driven capitalism" will now require every unit of government, particularly at state and local levels in the United States, to come forward with these sorts of plans. To the extent the inevitable legal challenges are survived, then these plans may become the basis for re-chartering private firms across the broad fabric of American society. Each firm, it is proposed, should operate with a "mission," above and beyond "making a profit." Each firm should be challenged to demonstrate how its activities and outputs are consistent with the public vision to which its activities pertain.

To summarize, then, society's vision at each level and unit of government is essential to crafting a social welfare function, which becomes instrumental in the determination of the use value of various assets. Businesses should be rechartered, it is argued, around mission. Most small businesses in the United States operate under conditions that are essentially nonprofit, within the Marshallian framework. Arguably these businesses could be made to be considerably more mission-driven. They would operate more like nonprofits, but would be retained under private ownership. Since all units of (GDP) output are not equal with regard to mission, the contribution of a particular business to the common good would be determined not solely on the basis of its ability to survive, but principally on its ability to create output and to marshal inputs consistent with community values.

4. RENTIER-OPERATED SMALL BUSINESSES

The focus of this paper is small businesses rather than large corporations. Characteristically, small businesses might include light manufacturing or professional services, such as law, accounting or medicine, for instance. Also included are a myriad of firms that operate within the economic pattern characterized by the textbook model of monopolistic competition. For purposes of illustration here, the reader is asked to consider, stereotypically, fast food restaurants and convenience stores including petrol stations. These are low wage businesses and account for the vast majority of jobs created by small U.S. firms.

The social welfare implications of small business are convoluted, at best. Often these firms are significant "engines" of job creation. However, they also pay sub-marginal wages with limited or no medical benefits. In the best of times, individuals who hold these jobs are likely to exist at the margins of society. The sector should now be reconceptualized, it is argued, somewhat away from portraying most of these businesses as "dynamic engines of growth," and more realistically, toward conceptualizing them as mere rentier extensions of the status quo. As such, their attributes may comprise some mix, ranging from socially beneficent to socially destructive. Examples of "socially destructive," for instance, could include businesses that may enslave or exploit, as determined by community standards.

The small business community characteristically opposes minimum wage laws. Typically state legislators are presented with a trade off by the small business lobby, arguing that a higher minimum wage can be gained only if jobs are sacrificed. Raising the minimum, for some existing quantity of employed workers, will raise marginal resource cost (MRC) above marginal revenue product (MRP), according to the neoclassical textbook demonstration in which input and output markets are assumed to be competitive. Consequently, as the MRC of employing some fixed quantity of workers rises due to legislatively increased wage minimums, employment and output will fall. Not only does this hurt workers, at the margin, and employers, but it has significant social welfare cost implications as well, owners will characteristically argue. Indeed, they may argue they are hurt twice-over by government action to shore up the minimum wage. First, higher MRC translates into higher prices, a lower quantity of output sold, and consequently lower income and lower profit. Second, the lobbying community may also argue that as citizens, the small business community is "forced" to pay higher taxes to support higher levels of state-induced social welfare, this in lieu of their preferred strategy for the state to remove minimum wage and other regulations, leaving these businesses free to hire at "market-competitive" wages. Low-wage workers who choose to do so, it may be contended, may improve their earning potential by increasing their human capital through education and training programs undertaken at their initiative.

Small businesses may petition state governments, particularly during economic downturns, arguing the best way to create jobs and thus to reduce unemployment is to reduce operating costs of small businesses through reductions in business taxes and regulations. This, of course, is in addition to auguring against the minimum minimum wage, or against minimum wage increases, even in the face of an increasing cost of living faced by their workers.

When faced with such petitions from lobbyists for small businesses, then, responses from state legislators, particularly, may begin to take on this "flavor." First, the small business community would be reminded they are not capitalists, per se, but rentiers, engaged mainly in maintaining the status quo. As such, it is incumbent upon them to demonstrate at the time of rechartering, how the mission of a specific business may articulate with community standards, otherwise known by economists as the social welfare function. For those businesses that do pursue a mission reasonably consistent with community standards, the state may well argue, legitimately so, that medical insurance and retirement benefits are best offered through the employment relationship, rather than through state-funded programs such as Medicaid, for instance. These businesses break even—that is, earn normal rather than economic profit. Typically they do not face "off-shore" competition, and therefore compete only with one another. The state may argue authentically that improving the underlying level of wages and benefits for their workers will not necessarily preclude the viability of the businesses, since each business will bear increased wage and benefit costs proportionate to existing payroll levels. Some businesses operating at the margin with regard to their competitors, may suffer collapse, however.

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