The DENNY CENTER for Democratic Capitalism
GEORGETOWN LAW

Examining the Role of Corporate Boards

ANNUAL REPORT ON THE HEALTH OF DEMOCRATIC CAPITALISM 2025

The Denny Center for Democratic Capitalism at Georgetown Law exists to reconcile the benefits of free market capitalism with the needs and expectations of a democratic society.

THE DENNY CENTER AND ITS MISSION

Established in 2020 by a generous gift from Georgetown Law alumnus James M. Denny (L'60) and charged with a unique vision grounded in life experience, the Denny Center for Democratic Capitalism at Georgetown Law exists to reconcile the benefits of free market capitalism with the needs and expectations of a democratic society. To carry out its mission, the Denny Center pursues work in three areas: (1) producing research, beginning with the center's signature Annual Report on the Health of Democratic Capitalism (the "Annual Report"), to analyze the current health of democratic capitalism (i.e., both its economic vitality and its broader contribution to the well-being of citizens, households, and society), (2) convening leading voices from business, government, and societal institutions to discuss the existing tensions and recommend potential paths forward, and (3) creating student experiences to enrich their education, engage them in the center's work, and prepare them for lifelong contributions.

Contents

"Capitalism is the economic soulmate of democracy, equally fair and flawed."

Ruchir Sharma, *What Went Wrong with Capitalism* (2024)

Executive Summary

HISTORY AND CONTEXT

Our *Inaugural Report on the Health of Democratic Capitalism* in 2022 identified key datasets, or vital signs, that highlight potential threats to democratic societies which embrace free market economics as the engine of growth and innovation. The Inaugural Report validated headline concerns over income inequality (real and perceived), slower upward mobility in economic terms, lack of coordinated environmental stewardship, and declining public trust in institutions. At the same time, the report found that overall GDP growth was slowing, that investment in innovation was losing steam, and that government spending continued to increase.

We revisited our vital sign datasets in 2023 and 2024 with similar findings, and in each year took a deep dive into specific areas of interest. Our *2023 Annual Report on the Health of Democratic Capitalism* focused on the health of market competition and confirmed that competition is under pressure with datasets demonstrating an increase in overall industry concentration, a long-term downward trend in antitrust enforcement, and a decline in business investment and labor productivity. In the *2024 Annual Report on the Health of Democratic Capitalism*, we shifted focus to the public sector and took a closer look at industrial policy. Our findings confirmed that industrial policy interventions have increased sharply in recent years, evaluation of industrial policy's results and effectiveness are complex and inconclusive, and in the U.S., most citizens don't have confidence in the government to solve problems.

This report, our 2025 edition, revisits a handful of our key datasets and then takes a deeper dive into the corporate governance practices of the largest U.S. companies, specifically asking whether boards should consider how their businesses are supporting, or undermining, democratic capitalism. Before giving an overview of this year's findings, we'll review how we approach our work.

DENNY CENTER RESEARCH PROCESS AND 2025 REPORT FOCUS

The Denny Center takes a clinical approach to measuring the health of democratic capitalism, using objective datasets to assess how well the market economy is serving the well-being of our democratic society. To that end, our team identified and grouped vital statistics relevant to the health of democratic capitalism in the U.S., recorded U.S. trends for each dataset, and compared a subset of these vital statistics results to those of a handful of other developed countries.

In this 2025 report, we have grouped the datasets into two sections: **(1) revisiting key datasets from our earlier reports,** and **(2) taking a deep dive into the corporate boards of our largest companies** by examining board basics, agendas, challenges, and opportunities. This year's report also includes responsive essays from economists Betsey Stevenson (University of Michigan) and Michael Strain (American Enterprise Institute), as well as an addendum essay reflecting on how Adam Smith's thinking and writing might help boards—and all of us today.

2025 FINDINGS

1. Key Datasets

Our key dataset trends, for the most part, have stayed on the same track since we began studying them in 2022. Here are our observations from this year's core vital signs:

- **GDP growth remained below 3% on average,** and key drivers including birth rates and productivity remain under pressure. There is some optimism that artificial intelligence tools will boost productivity and growth, with the initial Q2 2025 GDP growth rate showing promise at 3.8%.

- Consistent with the GDP trend, **real output per hour has stalled** growth rate-wise after a bit of a surge in the months immediately following the pandemic.
- **Income inequality has increased in recent years** (based on the income ratio of the Top 10% to the Bottom 50%), but using a longer time horizon, the ratio has still not reached its highs of the 1920s and 1930s.
- The gap in income levels may be widening, but **the percent of the U.S. population living in poverty has declined** from over 22% to 11% over the last 60 years.
- The public continues to trust businesses more than the government, NGOs, and the media, but that trust declined slightly from 2024 to 2025. And when separated, **trust in large, multinational corporations is much lower than trust in small businesses.**
- As measured by private investment or by patents originating in the U.S., **domestic innovation—with the exception of artificial intelligence developments—is not showing signs of improvement.**
- Except for GDP per capita, **the U.S. lags international peers on most measures,** including income level gaps and life expectancy.

2. Deep Dive | Examining the Role of Corporate Boards

As mentioned above, various surveys indicate that though public trust in institutions is down overall, trust in business is higher than it is in government, media, or NGOs.[1] However, when polls differentiate between big businesses and small businesses, big businesses are not seen in a favorable light,[2] and big businesses are the primary drivers of the U.S. economy with the Fortune 500 making up approximately two-thirds of GDP.[3] These findings, together with anecdotal stories of corporate governance challenges and personal experiences of board members, past and present, motivated us to analyze the boards of our largest companies: their composition, agendas, challenges, and potential rationale for taking a more active role in supporting democratic capitalism.

Here's what we learned:

- Over the last 20 years, S&P 500 board size and composition have not changed much **except for the increase in the percentage of female directors** which increased from 16% to 34%.[4]
- Most public company boards have separated the role of Board Chair and CEO, but **as of 2024, 40% of the S&P 500 companies still combine the two roles.**
- **Approximately 4,000 individuals serving as public company directors govern the 500 largest U.S. companies** that generate about two-thirds of GDP.
- Combining average compensation and tenure data, **S&P 500 board directors earn, on average, over $2.8 million for each company they serve over their entire tenure.**
- Though board agendas are packed with mandatory items, **board members want to spend more time discussing long-term strategy, human capital (including CEO succession), and artificial intelligence.**

1 2025 Edelman Trust Barometer, https://www.law.georgetown.edu/denny-center/research/a-closer-look-at-industrial-policy, accessed July 9, 2025.

2 Kam, Cindy, "Nobody Roots for Goliath: Why Americans Trust Small Business", Pew Research Center, October 17, 2024, https://www.pew.org/en/trend/archive/fall-2024/nobody-roots-for-goliath-why-americans-trust-small-business, accessed July 9, 2025.

3 Fortune Media, "Fortune Announces the 2025 Fortune 500 List", June 2, 2025, https://fortunemedia.mediaroom.com/2025-06-02-Fortune-Announces-2025-Fortune-500-List, accessed July 24, 2025.

4 Preliminary data suggests the hiring rate of female directors has declined slightly in 2025 (see Deep Dive | The Basics for more).

- **Board directors consider whether and how to engage in social and political issues as a key dilemma,** and despite short-term pressures, they believe their most important commitment is to the long-term health of the enterprise.
- Stakeholder capitalism can be defined in several ways, and **at least one definition allows boards to consider the interests of all stakeholders** without de-prioritizing long-term shareholder value.
- If corporate boards do see value in rethinking support for democratic capitalism, **businesses have the resources, skills, and global reach to make change happen**—and can typically act more quickly than policymakers.

KEY QUESTIONS FOR FURTHER STUDY

- What corporate actions or policy changes could potentially reverse the lowering growth rate of GDP over the long-term?
- What are the potential consequences if the GDP growth rate remains in the 1.5–2.0% range, and how might they be mitigated?
- What can be done to address the widening income gap? If the gap in income levels continues to widen, what can be done to support steady growth in standards of living across the board?
- Corporate board membership has improved in gender and ethnic diversity, but should boards also consider additional diversity attributes such as age, economic status, or educational/career background?
- If boards believe their companies have a role in stewarding the health of democratic capitalism, what tangible steps can they take now—and what measures should they use to determine progress?

Key Datasets 2025

In this section of the report, we updated a handful of key vital statistics datasets from our 2024 Report; the selected datasets are listed below and shown on the following pages.

1. **Efficacy & Vitality:** *Does our economic system generate growing total wealth?*

- Real GDP growth
- Real Output Per Hour in the Nonfarm Business Sector
- Total Factor Productivity Annual Change
- Fertility Rates

2. **Fairness & Social Mobility:** *Does the system address the well-being of all members of society, or does it favor distinct groups?*

- Labor Compensation as a Share of GDP
- Household Income After Taxes and Transfers
- Ratio of CEO to Average Worker Compensation
- Income Inequality Trend

3. **Social Well-Being & Stability:** *How does the system strengthen (or weaken) society more broadly?*

- Life Expectancy at Birth
- Percent of U.S. Population Living in Poverty
- Trust in Institutions
- U.S. Billion Dollar Disaster Events

4. **Business Environment:** *What is the current status and nature of free market competition, and how well is the business community positioned to address current pressures on the system?*

- Number of Publicly Listed Companies
- Private Domestic Investment as Percent of GDP
- Overall Business Sector Concentration
- Patents Originating in the U.S. Annually

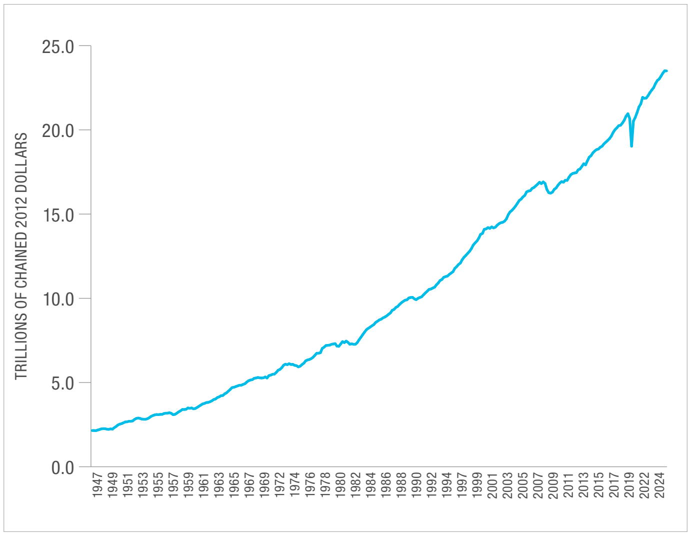
5. **International Comparisons:** *How does the U.S. compare to other democratic societies, and what can we learn from the differences?*

- Cumulative GDP Growth
- Government Social Spending as a Percent of GDP
- Income Inequality Trend
- Life Expectancy at Birth

1. EFFICACY & VITALITY

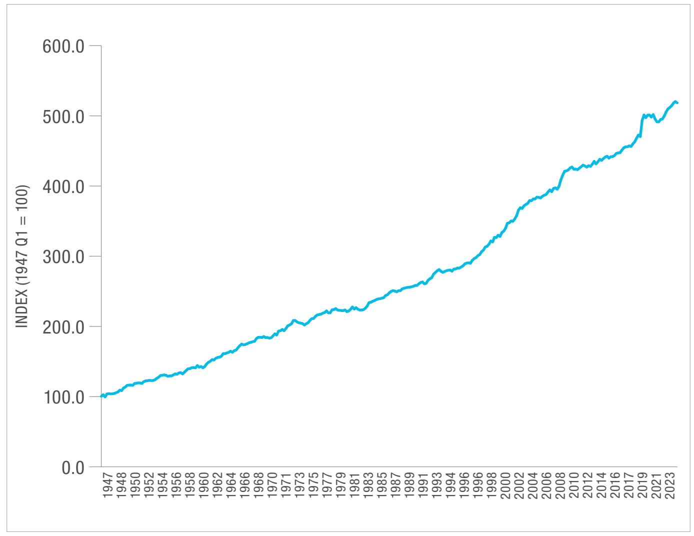
Does our economic system generate growing total wealth?

Real GDP Growth in Chained 2012 Dollars, 1947–2025



Source: U.S. Bureau of Economic Analysis, retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/GDPC1, accessed June 18, 2025.

Real Output Per Hour in the Non-Farm Business Sector, 1947–2025



Source: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/OPHNFB, accessed June 18, 2025.

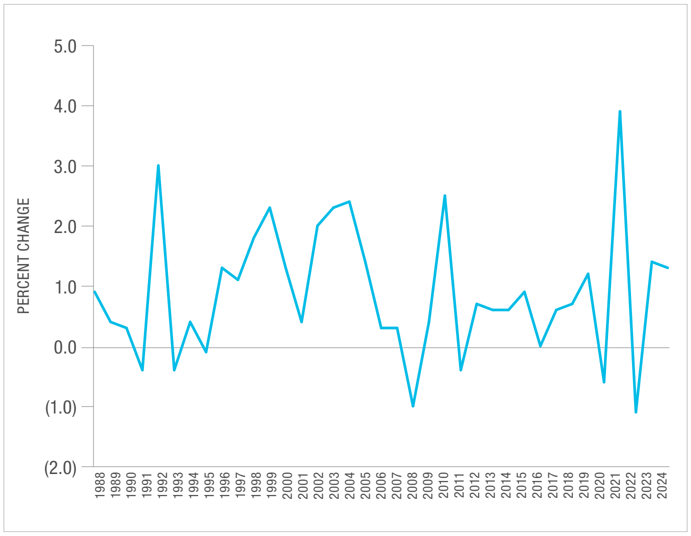
The U.S. economy continues to generate a growing amount of total wealth over time, including a strong bounce-back after the 2020–21 COVID-19 contraction. Inflation-adjusted gross domestic product—"real GDP"—measures the quantity of goods and services produced in the nation. Real GDP is equal to the level of domestic production purchased by consumers, businesses, and the government, as well as production exported to other nations. While raw economic output may leave out many factors that matter to a citizen's well-being (e.g., leisure time, health status, or political freedom), GDP does provide a good measure of the resources available to a society, and the growth rate of that output can help describe increases in living standards.

Real GDP increases when the number of workers in the economy increases or when those workers become more productive. Since our Inaugural Report in May 2022, we have seen continued growth in real GDP in line with pre-pandemic expectations. However, compared to previous decades, real GDP has grown more slowly in recent years (excluding the 2020–21 bounce back period), partly due to slower population growth and an aging population. In addition, the growth in workforce productivity has slowed over the last fifteen years. If these trends continue, the U.S. will not get poorer, but living standards will rise less rapidly.

Productivity is defined as a worker's output per hour, meaning that to generate greater productivity and economic growth, workers must increase the amount of economic output produced for every hour worked. Productivity can increase dramatically when new technologies allow workers to produce more and can grow over long time horizons as the labor force becomes better educated.

Over the long-term, productivity growth is crucial to increasing living standards. After many centuries, the first substantial increase in living standards occurred due to new technologies invented during the Industrial Revolution. In the U.S., productivity increased during the 1990s when businesses figured out how to use modern computers to increase output per hour of work. Like GDP, productivity has continued to increase but the rate of growth has slowed in recent years. Many contend that artificial intelligence (AI) may provide the next boost to worker productivity.

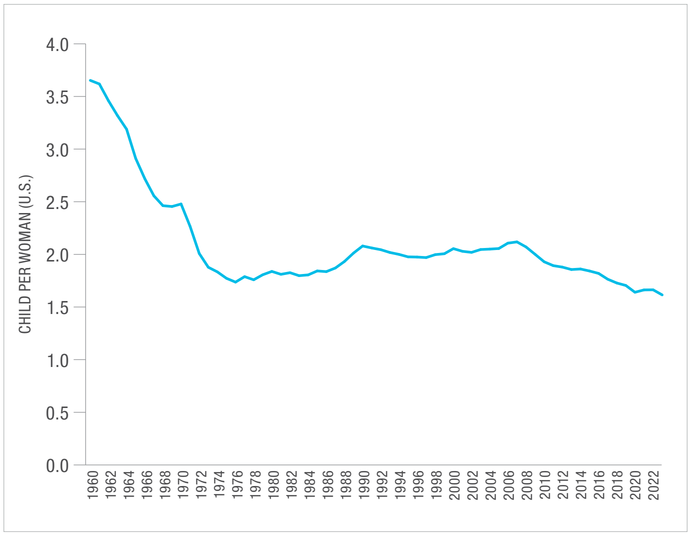
Total Factor Productivity Annual Change, 1988–2024



Source: U.S. Bureau of Labor Statistics via FRED, https://fred.stlouisfed.org/series/MPU4900013, accessed June 18, 2025.

In addition to the productivity of the labor force, total factor productivity captures the share of increases in economic output not accounted for by increases in the inputs to production, including labor and capital. It measures the rate at which technology is improving and the extent to which businesses are making efficient use of inputs to production. Like labor productivity, this measure shows substantial growth in the early 1960s and 1990s, with slowing growth after the Great Recession in 2008. But despite the headwinds, as of 2024, total factor productivity has shown positive growth in 15 of the last 20 years.

Fertility Rates, 1960–2023



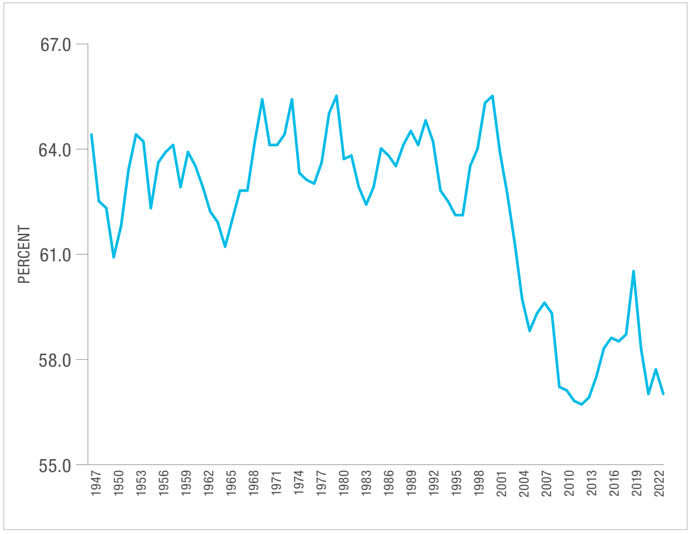
Source: St. Louis Federal Reserve, https://fred.stlouisfed.org/series/SPDYNTFRTINUSA, accessed September 9, 2024.

The total fertility rate is defined as the number of children per woman, and it has roughly decreased by half since 1960. However, after over a decade of declines, the U.S. fertility rate has held steady over the last few years. The long-term decrease is attributed to a significant increase in access to education by women, the increase in female workforce participation, decreasing child mortality rates, and the rising costs of bringing up children. Because fertility rates affect the size of the future workforce, this decline could indicate long-term reductions in the growth rate or an eventual drop in GDP. The economic effects of declining fertility rates could be offset by longevity, technological innovations, immigration, and/or social policies to encourage higher birth rates by supporting young families. However, this would require targeted government intervention or innovation that is not guaranteed.

2. FAIRNESS & SOCIAL MOBILITY

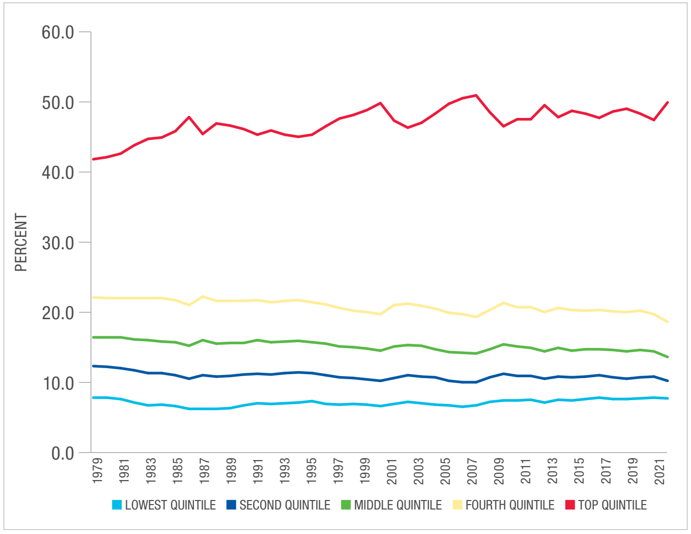
Does the system address the well-being of all members of society, or does it favor distinct groups?

Labor Compensation as a Share of GDP, 1947–2024



Source: BLS Major Sector Productivity data. www.bls.gov/news.release/prod2.nr0.htm, accessed September 14, 2024; and supplemented by Bureau of Economic Analysis datasets, https://apps.bea.gov/well-being/#jump-03, accessed September 20, 2025.

Household Income After Taxes and Transfers, 1979–2021



Source: Congressional Budget Office, 2024. "The Distribution of Household Income, 2021," Report 60341 (Table 12), September 2024, https://www.cbo.gov/publication/60341#data, accessed June 20, 2025.

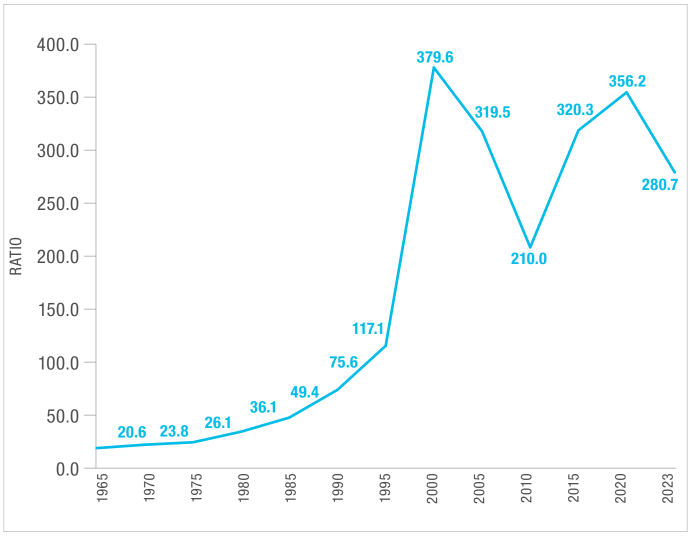
This graph shows the share of total economic output that is paid as compensation to workers and can be compared to the share of output returned to owners of capital. Labor's share of income has declined from highs near 65% in the last half of the twentieth century to approximately 57% in more recent years through 2024. A downward trend in labor share of GDP makes it more difficult for standards of living to increase for the majority of workers.

Based on the U.S. Census methodology for measuring market income, income for middle-class households has not stagnated over the past four decades, but it has grown substantially more slowly than income at the top. The top 20% of the income distribution has seen three times as much growth as the middle 60%. Additionally, greater income gains are correlated to higher income. The top 0.01% has seen cumulative income growth of over 400% over the past four decades.

It is important to note that some economists argue that the U.S. Census metrics do not incorporate the majority of federal, state, and local government transfer payments (that slightly increase income in the lower quintiles) or taxes (that decrease income in the higher quintiles). This critique does not fully answer questions of growing income inequality or why market incomes have widened so significantly, but it does present a less extreme picture of actual income differences over time.[5]

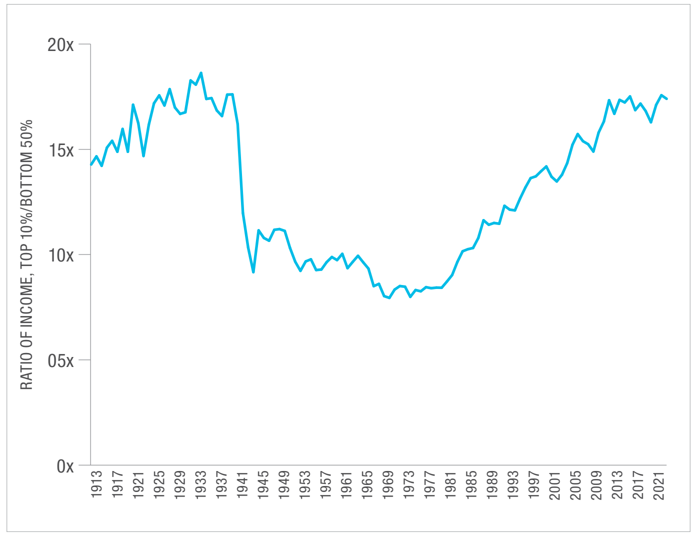
[5] Early, John, Ekelund, Robert, and Gramm, Phil, *The Myth of American Inequality: How Government Biases Policy Debate, Rowman & Littlefield,* 2022.

Ratio of CEO to Average Worker Pay, 1965–2023



Source: Economic Policy Institute, https://www.epi.org/publication/ceo-pay-in-2023/#fig-a, accessed June 20, 2025.

Income Inequality in the U.S., 1913–2023



Source: World Inequality Database, https://wid.world/news-article/global-income-inequality-1820-2020/, accessed August 20, 2025.

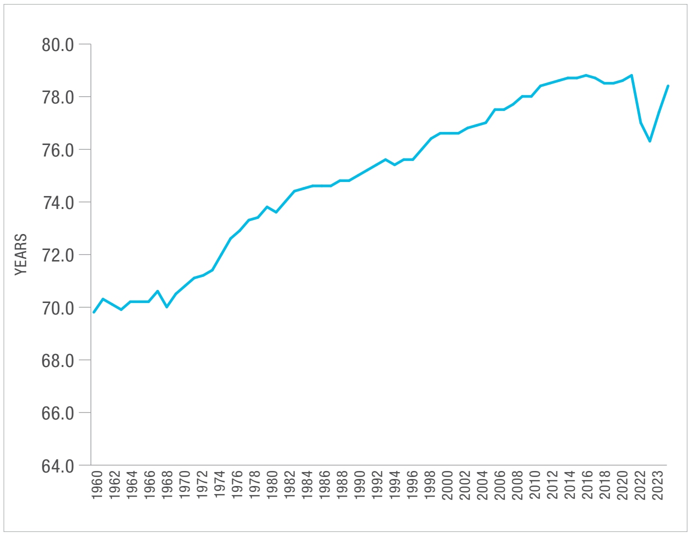
Average annual compensation for CEOs at the top 350 U.S. firms ranked by sales is measured in two ways. Both include salary, bonus, and long-term incentive payouts, but the "granted" measure includes the value of stock options and stock awards when they were granted, whereas the "realized" measure captures the value of stock-related components that accrues after options or stock awards are granted by including "stock options exercised" and "vested stock awards. The ratios shown here use the "realized" measure of CEO compensation. This gap in income should motivate boards to not only question the current groupthink approach to executive compensation (i.e., is the current level of CEO pay too high?), but also to investigate employee pay across the board (i.e., are we paying rank-and-file employees enough?).

Instead of using the Gini Coefficient data this year to evaluate income inequality, we are using longer-term trend data from the World Inequality Database. This alternate view of income inequality, measured by the ratio of the Top 10% income divided by the Bottom 50% income, puts the current level of inequality in better historical perspective. It confirms growing income inequality since the 1970s, but it also highlights that the gap was slightly wider in the 1920s and 1930s.

3. SOCIAL WELL-BEING & STABILITY

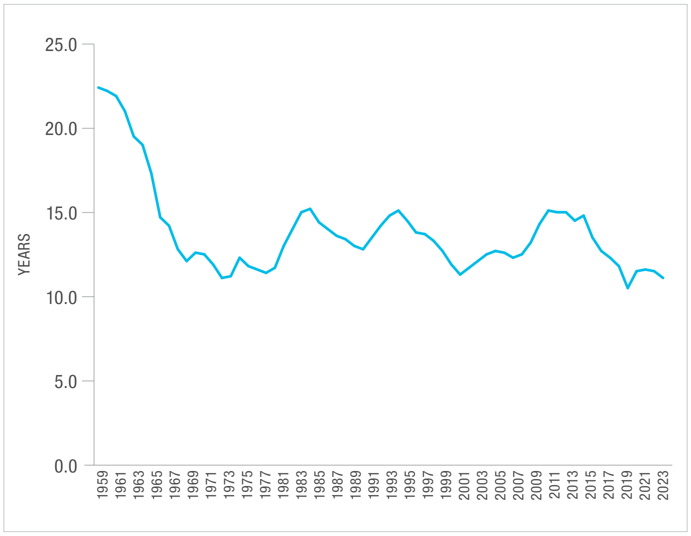
How does the system strengthen (or weaken) society more broadly?

Life Expectancy at Birth, 1960–2023



Source: World Bank, Life Expectancy at Birth, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SPDYNLE00INUSA, accessed June 20, 2025.

Percent of U.S. Population Living in Poverty, 1959–2023

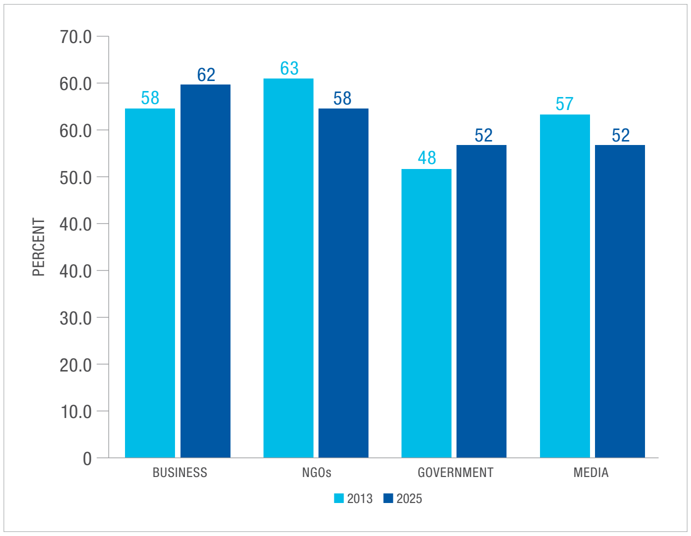


Source: U.S. Census Report "Poverty in the United States: 2023", September 10, 2024, accessed June 20, 2025.

Average life expectancy at birth has largely increased since 1960 from roughly 70 years to 78 years but has fallen slightly since 2014. Reductions in infectious disease deaths, infant mortality, and heart attack death rates have helped boost life expectancy over time. More recently, declining life expectancy at the bottom of the income distribution has slowed progress, and the impacts of the COVID-19 pandemic are also reflected in recent data. There are also wide gaps in life expectancy across income, race, and geography in the U.S.

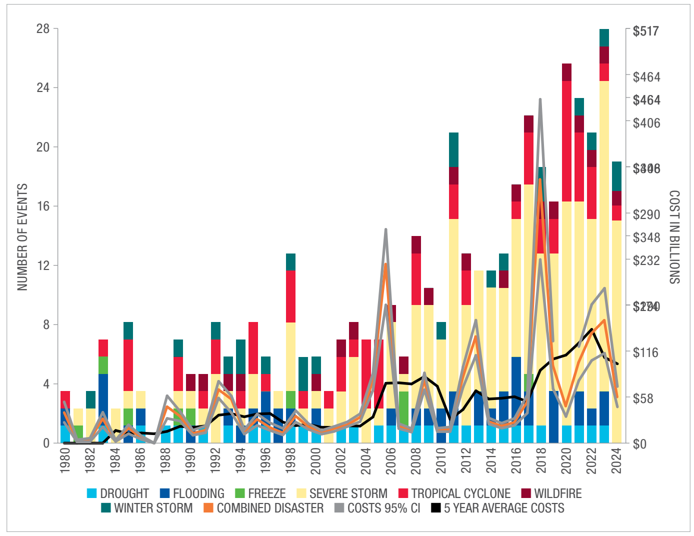
The official poverty measure estimates how many people are unable to afford basic needs based on income and the average national cost of food adjusted for inflation. The supplemental poverty measure extends the official poverty measure by taking account of many of the government programs designed to assist low-income families and individuals that are not included in the official poverty measure. Both rates rose during the Great Recession and then trended down throughout the 2010s. Despite the headlines around income inequality, the percent of the U.S. population living in poverty has improved over time, decreasing from 22% in the early 1960s to 11% in the most recent years.

Trust in Institutions, 2013 Versus 2025



Source: Edelman Trust Barometer Global Report; https://www.edelman.com/trust/2025/trust-barometer, accessed June 20, 2025.

U.S. Billion Dollar Disaster Events, 1980–2024



Source: NCEI, NOAA Time Series, https://www.ncei.noaa.gov/access/billions/time-series, accessed June 20, 2025.

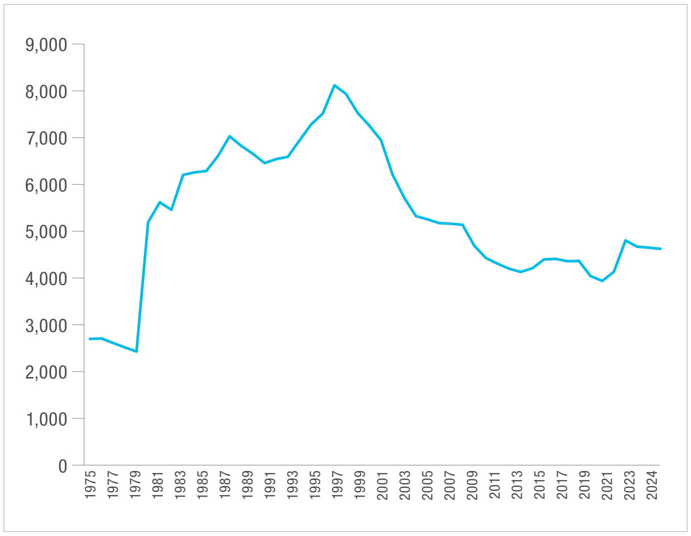
For over two decades, Edelman has conducted an annual trust survey to gauge the public's trust in societal institutions (i.e., business, government, NGOs, media) and institutional leaders. In the most recent addition, the firm surveyed more than 33,000 respondents in 28 different countries asking, "for each [institution], please indicate how much you trust that institution to do what is right." Those that received scores from 60–100 are deemed trustworthy, those from 50–59 are neutral, and those from 1–49 are considered to be distrusted. Currently, business is the only institution to hang on to a trustworthy ranking at 62, while NGOs, government, and media are seen as neither trusted or distrusted; it's worth noting that trust in government has increased since 2013.

Along with the number and intensity of disaster events, the cost of disasters is also increasing when viewed as an average trendline. In addition to the direct costs of damages and emergency management spending, disaster events can have secondary economic effects including disruption to work, lost productivity, and disruption to supply chains and essential infrastructure. Though the costs of transitioning towards cleaner energy is often discussed, businesses and governments alike should also consider the costs of maintaining the status quo. The costs of continued environmental degradation and the effects of climate change have concrete impacts for society, long-term business interests, and the lives of every American.

4. BUSINESS ENVIRONMENT

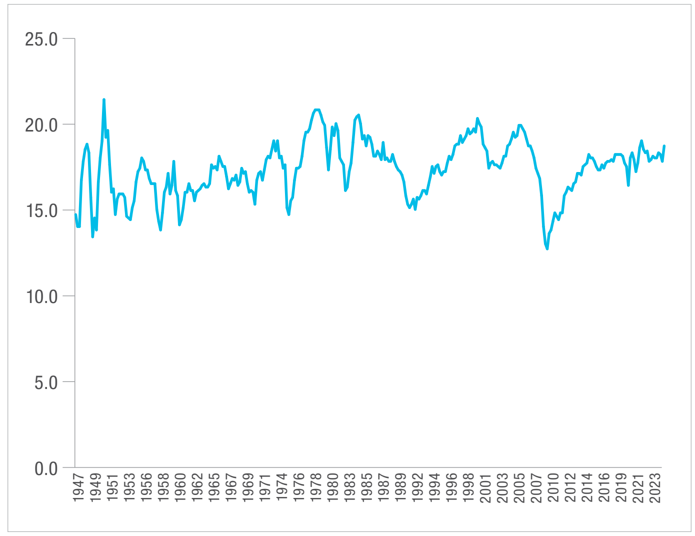
What is the current status and nature of free market competition, and how well is the business community positioned to address current pressures on the system?

U.S. Listed Companies, 1975–2024



Source: World Bank Group, Listed Domestic Companies - United States, https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=US, accessed September 12, 2024, and supplemented with additional data from https://www.tradingview.com, accessed June 20, 2025.

Private U.S. Investment as Percent of GDP, 1947–2025

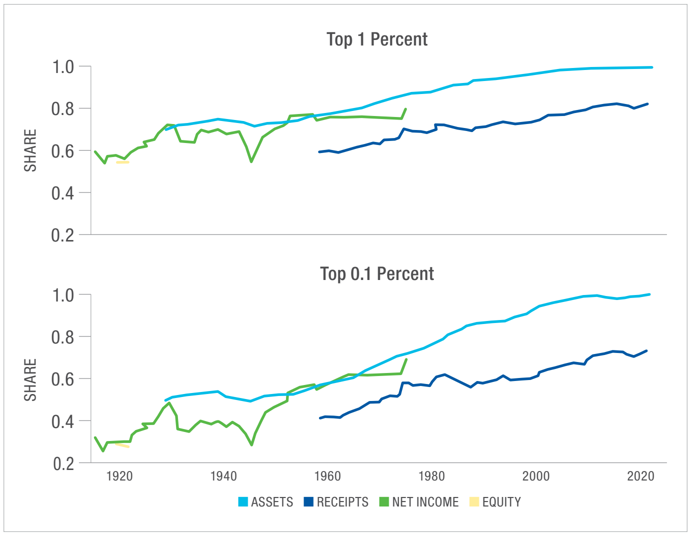


Source: U.S. Bureau of Economic Analysis, via FRED database, https://fred.stlouisfed.org/series/A006RE1Q156NBEA, accessed June 20, 2025.

Since a peak of over 8,000 publicly listed companies in 1996, the U.S. has seen a drop by over 40% to approximately 4,600 public companies by 2024. Many blame this decrease on the increased costs and complexities of operating as a public company. This trend could be seen as a threat to the dynamism needed to fuel appropriate levels of competition, future growth, and innovation. However, recent analysis by McKinsey cautions that the decline might not be as consequential as it appears. They demonstrate that the drop-off in listings can be attributed primarily to three sectors (banking, industrials, and technology); the drops occurred primarily because of exits between 2001–2010; and 95% of the exits were the result of acquisitions (not company failures). This doesn't negate the fact that business sectors are more concentrated, but it does confirm that firm exits are not necessarily driven by weaker firms going out of business.

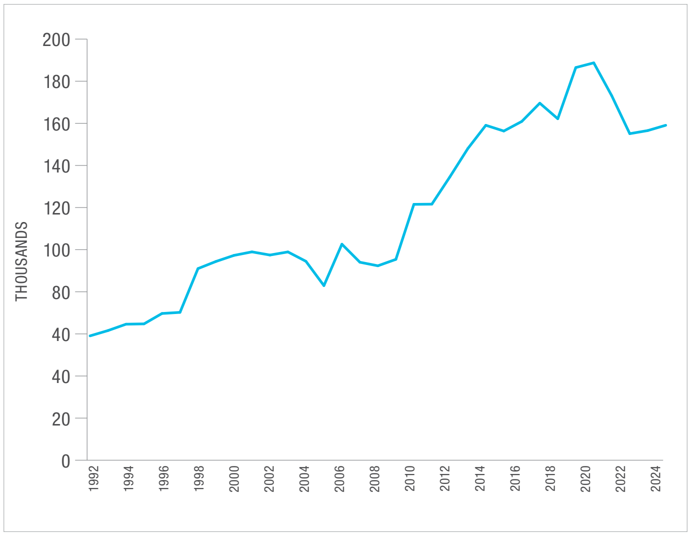
Private domestic investment is an indicator of how much businesses are investing within the national borders, and it's an indicator of near-term investment opportunities as well as business leaders' long-term optimism about economic growth at home. Despite a significant dip that coincided with the 2008–2009 financial crisis, private domestic investment in the U.S. has ranged between 15–20% as a share of GDP since the late 1940s. The latest data from 2020 to 2025 have hovered just above the middle of that range, not suggesting strength or weakness when considering this dataset in isolation.

U.S. Industry Concentration, 1920–2020



Source: Kwon, Spencer Y., Yueran Ma, and Kaspar Zimmermann. 2024. "100 Years of Rising Corporate Concentration." American Economic Review, 114 (7): 2111–40.

Patents Originating in the U.S. Annually, 1992–2024



Source: U.S. Patent and Trademark Office, Workload Tables, https://www.uspto.gov/about-us/performance-and-planning/uspto-annual-reports, accessed June 20, 2025.

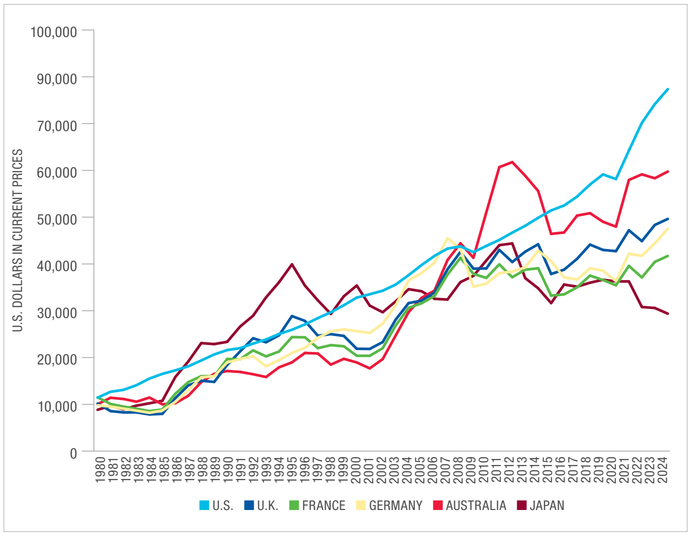
In February 2023, researchers at the University of Chicago's Becker Friedman Institute published a working paper focused on market concentration statistics over the last 100 years. They found that corporate concentration has increased persistently over the time period (either asset share or sales share of top businesses). In addition, they concluded that rising concentration in an industry coincided with increased technological intensity and higher fixed investment. Increased industry concentration is often a warning that the quality of market competition has decreased.

Another measure of the scale of innovation is the number of patents originating in the U.S. annually. This figure plots the total number of patents where the first named inventor resides in the U.S. Total patents are the sum of utility, plant, design, and reissue patents granted by the U.S. Patent and Trademark Office. The number of patents granted has grown by approximately 60% since the Great Recession in 2008–2009. While this may signal increased innovative activity, it may also reflect the patenting of a growing range of ideas (e.g. business practices) or increased low-quality patents (that do not change activity much). Still, the long-term trend points to the economic system spurring ongoing innovation.

5. INTERNATIONAL COMPARISONS

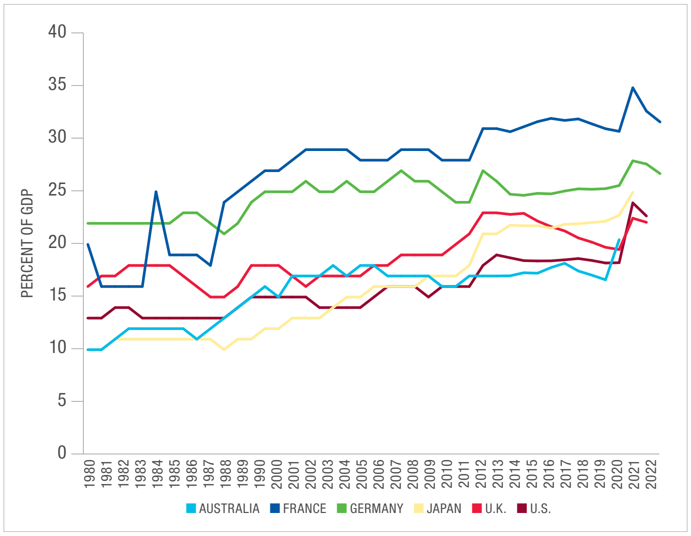
How does the U.S. compare to other democratic societies, and what can we learn from the differences?

GDP Per Capita in Current Prices, 1980–2024



Source: International Monetary Fund Datamapper, https://www.imf.org/external/datamapper/NGDPDPC@WEO/USA/AUS/FRA/DEU/JPN/GBR?year=2025, accessed June 20, 2025.

Government Social Spending as Percent of GDP, 1980–2022

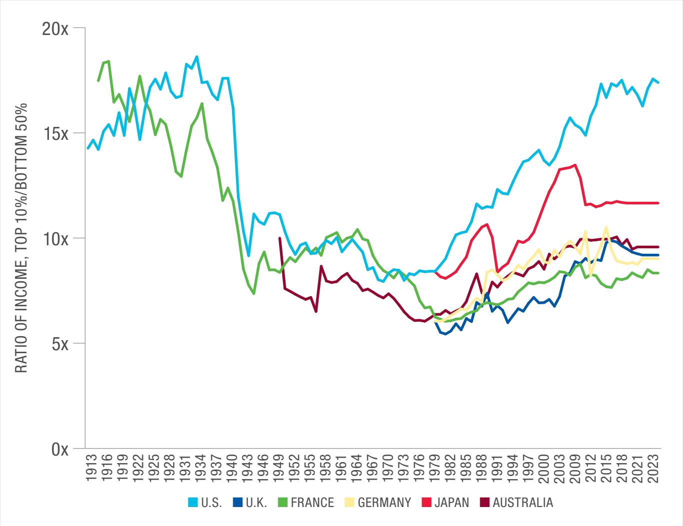


Source: OECD Data Explorer, https://data-explorer.oecd.org/, accessed September 14, 2024.

One core fact when comparing the U.S. economy to many of its large, advanced economy peers is that the U.S. has a higher level of output per capita. This figure shows the level of GDP per capita for the U.S. and five other nations from 1980 to the present. The data are shown in constant prices (adjusting for inflation) and in international dollars (adjusting for exchange rates and price differences across countries) to try to show an apples-to-apples comparison of GDP per person. Growth rates over time have been reasonably similar, with all six economies growing between 3x and 8x per capita over this period, with the U.S. leading the pack in recent years. Output per capita is a function of the share of the population working, the number of hours worked per worker, and the productivity of labor (output per hour).

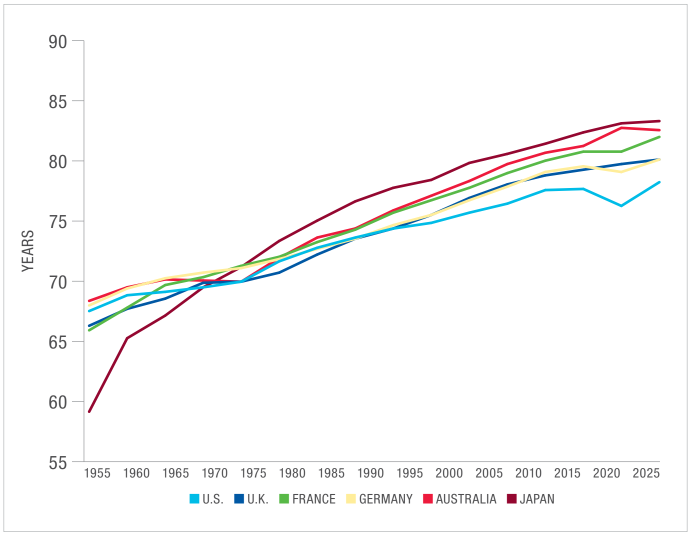
France leads the five other comparison countries with over 30% of social spending as a percentage of GDP, with Germany coming in second about five percentage points lower. Social expenditure comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes. Benefits may be targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons. To be considered "social", programs must involve either redistribution of resources across households or compulsory participation. Social benefits are classified as public when the government (that is central, state, and local governments, including social security funds) controls the relevant financial flows. All social benefits not provided by the government are considered private. Private transfers between households are not considered as "social" and not included here.

Income Inequality, 1913–2023



Source: World Inequality Database, https://wid.world/news-article/global-income-inequality-1820-2020/, accessed August 20, 2025.

Life Expectancy at Birth, 1950–2025



Source: United Nations Population Division Estimates, https://www.worldometers.info/demographics/life-expectancy/#countries-ranked-by-life-expectancy, accessed June 20, 2025.

Though the earliest historical data is not available for the U.K., Germany, Japan, and Australia, we again examine trend data from the World Inequality Database beginning in the 1910s for the U.S. and France. According to the data, both the U.S. and France shared high income gaps in the early decades of the twentieth century, and all six countries measured demonstrated smaller gaps in the 1970s and early 1980s. Since then, the income gap has grown the widest in the U.S., followed by Japan—with Australia, France, Germany, and the U.K. maintaining smaller gaps.

Since the 1980s, the U.S. has lost considerable ground on life expectancy to the selected peer nations. Japan has gained 25 years since 1950 or an average age of 85, and Australia has gained over 15 years. Notably, life expectancy in the U.S. has only risen about 10 years over the same period and remains below 80 years of age. Coupled with birth rates, life expectancy impacts population size and economic growth rates. With falling birth rates and low-growth in life expectancy (assuming steady immigration rates), population growth faces significant headwinds.

Deep Dive | Examining the Role of Corporate Boards in Supporting Democratic Capitalism

"Business and society have a symbiotic relationship: The long-term viability of the corporation depends upon its responsibility to the society in which it is a part. And the well-being of society depends upon profitable and responsible business enterprises."

The Business Roundtable, "Statement on Corporate Responsibility" (1981)

"Large companies need to build social issues into strategy in a way which reflects their actual business importance. […] Shareholder value should continue to be seen as the critical measure of business success. However, it may be more accurate, more motivating—and indeed more beneficial to shareholder value over the long term—to describe business's ultimate purpose as the efficient provision of goods and services that society wants."

Ian Davis, *The Economist* (2005)

"The idea that corporate managers should make maximizing shareholder value their goal—and that boards should ensure that they do—is relatively recent. […] A better model would have at its core the health of the enterprise rather than near-term returns to its shareholders. […] Corporations are embedded in a political and socioeconomic system whose health is vital to their sustainability."

Joseph Bower & Lynn Paine, *Harvard Business Review* (2017)

PREAMBLE

Business & Society

Business, or what is sometimes referred to as the private sector, plays a significant role in modern society and touches almost every aspect of citizens' lives. Companies provide goods and services, sources of income via employment, and support for communities through civic involvement and charitable giving. And over time, societies evolved in their stance toward business; since the mid-nineteenth century, business owners were commonly granted limited liability status in recognition of the high levels of investment and risk-taking needed to create significant new, capital-intensive industries (e.g., railroads, steel, energy).[6] Societies across the world would look very different without the existence of the private sector.

The long-term health of each company is ultimately the responsibility of its owner(s), and for public companies (and many private companies), that responsibility rests with a company's board of directors. **Considering the importance of business to society and business's need for customers and end markets, this deep dive explores why corporate boards should add the health of democratic capitalism to their agendas.**

Public Versus Private

It is important to briefly distinguish among company types in terms of legal structure and ownership. Public companies sell shares to the public, and these companies are governed by boards whose members are elected by shareholders. In addition, they are required to register with securities regulators (e.g., the Securities and Exchange Commission in the U.S.). Public companies must publicly disclose standard financial and operational information on a quarterly and annual basis—and any other information that could have a material impact on the health of the business.

Like public companies, private companies must comply with the same laws and industry regulations, but private companies are not required to disclose financial statements or operational reports to the public. Given this structure, owners of private companies have more flexibility in managing trade-offs among stakeholders than do public companies which often receive external pressures on management decisions. Also, alternative company structures (e.g., benefit corporations, employee stock ownership plans, cooperatives) are growing in popularity which also provide additional flexibility. **However, since public companies make up the vast majority of GDP and are subject to public shareholder scrutiny, this deep dive will primarily focus on public companies and their boards of directors.**

INTRODUCTION AND CONTEXT | IS THE SHAREHOLDER PRIMARY AMONG STAKEHOLDERS?

Public companies have many stakeholders including employees, shareholders, customers, suppliers, and the communities in which they operate—and stakeholders have varying interests in and influence over the company's activities. Since the mid-1970s, shareholder primacy has been the dominant view of how public companies should be governed (i.e., the company should be managed in a way that maximizes shareholder value over time). This view does not ignore the other stakeholders, but it does imply that their interests are a lower priority than those of shareholders.

The primacy of shareholders is a relatively new interpretation of corporate law, and many scholars will cite Michael Jensen and William Meckling's 1976 article "Theory of the Firm" as the piece that validated this view and labeled company boards and management teams as "agents" representing the shareholders' interests.[7] Others reference Milton Friedman's 1970 *New York Times Magazine* essay, "The Social Responsibility of Business

---

[6] The concept of limited liability, or joint stock, company dates back to at least the sixteenth century in Europe, but it was rarely used except when governments deemed it in the national interest. For more on this history, see Ha-Joon Chang's *23 Things They Don't Tell You About Capitalism* pp. 11–22 (Bloomsbury Press, 2012).

[7] Jensen, Michael C., and William H. Meckling. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics*, vol. 3, no. 4, 1976, pp. 305–360.

Is To Increase Its Profits", as the beginning of the shareholder primacy movement.[8]

Throughout the 1980s and 1990s, shareholder primacy as an ideology, whether a consensus view among scholars and practitioners, attracted attention and secured more legitimacy from both high-profile business transactions (e.g., the first wave of multi-billion dollar leveraged buyouts from roughly 1982–1989) and representations in popular culture (i.e., Gordon Gecko's assertion that "greed is good" in Oliver Stone's 1987 movie *Wall Street*). In recent years, however, the voices challenging the shareholder-centric view have grown.

In 2012, Cornell Law School Professor Lynn Stout asserted that "…United States corporate law does not, and never has, required directors of public corporations to maximize either share price or shareholder wealth."[9] In 2018, Blackrock CEO Larry Fink made waves with his annual letter to CEOs by challenging companies and their boards to do a better job of understanding their responsibilities to all stakeholders.[10] In 2019, the Business Roundtable followed suit with an updated "Statement on the Purpose of a Corporation" including asking its members to echo its assertion that "we share a fundamental commitment to all of our stakeholders…" listing customers, employees, suppliers, communities, and shareholders—in that order.[11]

In 2022, Harvard Law's Lucian Bebchuk and Roberto Tallarita attempted to quantify the results of recent stakeholder rhetoric in an article in the *Vanderbilt Law Review,* "Will Corporations Deliver Value to All Stakeholders?". In the paper, they analyzed the public documents filed by signatories to the 2019 BRT statement of business purpose and found little evidence of any real actions that elevated other stakeholders relative to shareholders.[12] At best their findings verify that shareholders retained their primacy in practical terms despite collective aspirations to the contrary.

THE TASK AT HAND

Regardless of how a public company views stakeholder priorities, the company's stance is primarily developed and stewarded by its board of directors. From company to company, boards differ on how they manage the tensions among shareholders and other stakeholders; and within companies, individual board members may also hold different views.

Boards also feel increasing pressure to weigh in on the most recent public event or cultural flashpoint. This deep dive begins to build the case that boards should strive to support democratic capitalism because a vibrant and healthy society is in the long-term best interest of the businesses they govern. We attempt to do this by understanding board basics, analyzing current agendas, identifying rising challenges, and posing questions for boards to consider.

The Denny Center does not take a definitive position on what U.S. corporate law requires of public companies vis-à-vis the shareholder primacy versus stakeholder capitalism debate.[13] However, we believe that a basic understanding of the ongoing discussion—with its complexities and ambiguities—are an important foundation before taking a closer look at public company boards and their role in keeping democratic capitalism strong.

8 Friedman, Milton. "The Social Responsibility of Business is to Increase Its Profits." *The New York Times Magazine*, 13 Sept. 1970, pp. 32–33, 122–124.

9 Stout, Lynn A. *The Shareholder Value Myth: How Putting Shareholders First Harms Investors, Corporations, and the Public.* Berrett-Koehler Publishers, 2012. p. 4. Professor Stout does leave room for maximizing shareholder wealth in limited circumstances, including evaluating offers for the purchase of an enterprise. Professor Stout also challenges the view that shareholders are "owners" of a public company, but that discussion is beyond the scope of this introduction.

10 Fink, Larry. "A Sense of Purpose." *Harvard Law School Forum on Corporate Governance*, 17 Jan. 2018, corpgov.law.harvard.edu/2018/01/17/a-sense-of-purpose/.

11 Business Roundtable. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'." *Business Roundtable*, 19 Aug. 2019, www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

12 Bebchuk, Lucian A. and Tallarita, Roberto, "Will Corporations Deliver Value to All Stakeholders?" (August 4, 2021). *Vanderbilt Law Review*, Volume 75, 2022, pp. 1031–1091.

13 The phrase "U.S. corporate law" is a misnomer since laws of incorporation vary depending on the state in which a company registers. However, since two-thirds of Fortune 500 companies are incorporated in Delaware, the reader should assume we are referencing Delaware corporate law when using this phrase.

Deep Dive | Board Basics, Agendas, Challenges, and Opportunities

INTRODUCTION

Corporate boards have an important role to play in supporting democratic capitalism while at the same time prioritizing the long-term profitability and health of their businesses.

DATASETS

1. **The Basics:** *What do we know about the largest public company boards?*
   - Board Composition
   - Combined Chair/CEO
   - Compensation
   - Time Commitment

2. **Agendas:** *How do boards currently prioritize their meeting time?*
   - Typical Agenda Outline
   - Core Attributes of Board Governance
   - Time Allocation Per Agenda Item

3. **Challenges:** *What external pressures are challenging boards today, and what dilemmas are boards facing as a result?*
   - Dilemmas for Boards
   - Board Efforts With Subpar Results
   - Influences on Board Agendas

4. **Moving Forward:** *Why should boards care about the health of democratic capitalism, and how can they factor it into long-term strategy?*
   - Definitions of Stakeholder Capitalism
   - Time Horizons and Value Creation
   - Rationale for Private Sector Action
   - Questions for Boards to Consider

CONCLUSION

The private sector has a bigger role to play in supporting democratic capitalism, and companies typically have stronger balance sheets and superior agility than most legislatures or regulatory agencies. Corporate boards, working with their executive management teams, can take actions that strengthen society and improve long-term value creation.

Deep Dive | The Basics

THE BASICS

What do we know about the largest public company boards?

Before digging into board priorities and performance, we take a step back to understand board composition, leadership structure, director compensation, and time commitment. For the S&P 500, the size of the average board has been steady at about 11 board members, including nine independent board members. Boards have also seen a steady increase in the number of female board members, while ethnic diversity on boards has remained constant from 2014 through 2024. However, preliminary data suggests that hiring of new female board members has declined slightly in 2025,[14] and that changing social and political factors in the U.S. have led to a decline in board diversity disclosures, meaning less data may be available on this point from 2025 forward.[15]

More boards have separated the roles of Board Chair and CEO though, as of 2024, 40% of S&P 500 companies still combine the two roles. On average, board members invest 242 hours a year per board and earn $327,000 for their service. While it's difficult to get reliable data on how many boards the average director serves on, if we assume at least 25% of S&P 500 directors serve on two boards, that implies that approximately 4,000 individuals steer the largest 500 companies in the U.S. which generate about two-thirds of GDP.

[14] Cox, Josie. "Share of Women in U.S. Corporate Leadership Falls amid Dei Rollbacks." *Forbes*, Forbes Magazine, 21 Aug. 2025, www.forbes.com/sites/josiecox/2025/08/21/share-of-women-in-us-corporate-leadership-falls-amid-dei-rollbacks/.

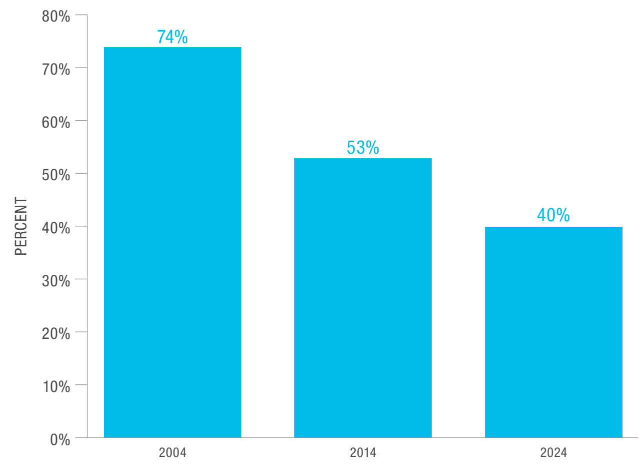
[15] Tonello, Matteo. "Dei in Transition: 2025 Corporate Diversity Disclosure Trends." *The Harvard Law School Forum on Corporate Governance*, 20 Aug. 2025, corpgov.law.harvard.edu/2025/08/20/dei-in-transition-2025-corporate-diversity-disclosure-trends/.

Board Composition, 2004–2024

	2004	2014	2024
Number of Directors	10.8	10.8	10.8
Percent Independent Directors	80%	84%	85%
Age	60.1	63.1	63.4
Tenure (Years)	N/A	8.4	7.8
Percent Women Directors	16%	19%	34%
Percent Minority Directors	N/A	24%	24%

Source: Spencer Stuart Board Index (2014 and 2024 reports), https://www.spencerstuart.com/research-and-insight/board-indexes, accessed July 28, 2025.

Combined Chair/CEO as Percent, 2004–2024

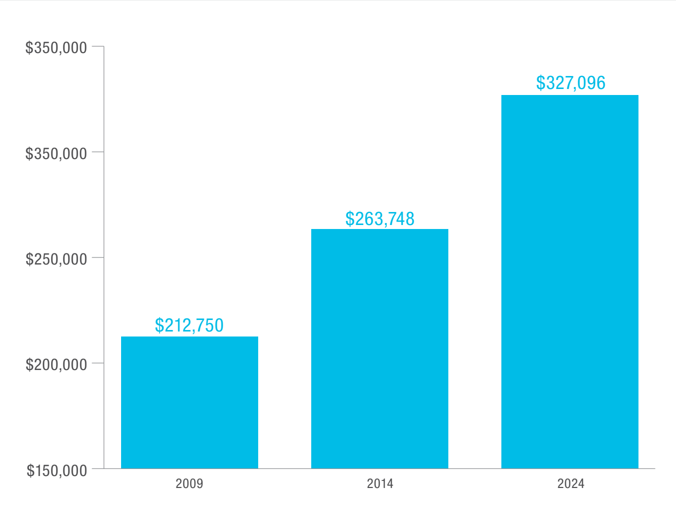


Source: Spencer Stuart Board Index (2014 and 2024 reports), https://www.spencerstuart.com/research-and-insight/board-indexes, accessed July 28, 2025.

Executive search firm Spencer Stuart tracks board membership statistics for those companies in the S&P 500 Index, and this chart is based on its 2014 and 2024 Board Index reports. Over the past 20 years, board size has remained constant at just under 11 members on average. The percentage of independent directors has increased slightly from 80–85% with minor changes in average age and tenure. Gender diversity has improved significantly with the percentage of female directors more than doubling since 2004, and ethnic diversity has been stable since 2014 (no data was available for 2004).

Over the last 25 years, the separation of the roles of Board Chair and CEO has been increasingly seen as an important ingredient in strong corporate governance. When both roles are held by the same person, experts argue that the CEO has outsized influence over board agendas, board membership, and executive compensation. In recent years the percentage of S&P 500 companies with the roles combined has decreased from 74% to 40%, a significant decrease but still leaving over one-third of the largest companies with one person holding both Board Chair and CEO roles.

Board Member Compensation, 2009–2024



Source: Spencer Stuart Board Index (2014 and 2024 reports), https://www.spencerstuart.com/research-and-insight/board-indexes, accessed July 28, 2025.

Board Member Time Commitment , 2023 & 2024

	Per Year
Number of Meetings Per Year (2023)	7.5
Hours Worked (2024)	242

Source: ESGAUGE/The Conference Board (2023), Spencer Stuart Director Pulse Survey 2024, https://www.spencerstuart.com/research-and-insight/spencer-stuart-director-pulse-survey-time-commitment-2024, accessed September 3, 2025.

Since 2009, average board member compensation has grown from $212,750 to $327,096—an increase of 54% or about 3.1% annually. Compensation is made up of an annual retainer, additional committee service fees, and stock compensation with the annual retainer making up 40–50% of total annual compensation. Combining the 2024 averages for tenure and total annual compensation, the average S&P 500 board member will earn over $2.8 million over the entirety of their service per board (assuming a 3.1% annual increase in compensation with no upside or downside built-in for stock value changes).

At a minimum, public company boards in the U.S. are required to meet quarterly, and most board agendas require two days to complete (including time for committee meetings). According to a 2023 Conference Board report, boards met on average 7.5 times per year with each member working 242 hours in 2024 (via Spencer Stuart survey). Board meetings in addition to the standard quarterly meetings typically include a once-a-year strategic offsite meeting as well as special meetings related to potential mergers and acquisitions or significant corporate events that require board input.

Deep Dive | Agendas

AGENDAS

How do boards currently prioritize their meeting time?

Over the last 50 years, the role of the corporate board has shifted from that of an advisory board that, for the most part, rubber-stamped the recommendations of the CEO and executive management team to a more active role around strategy, operations, and risk mitigation. In this deep dive section, we take a closer look at board agendas and priorities.

Typical Board Agenda Items, 2025

- Review and approval of minutes
- Management reports
  - Business review: performance, key initiatives, industry conditions, long-term strategy
  - Financial review: financial statements, forecasts, variances to budget, cashflow
- Board committee reports (audit, risk, compensation, governance)
- Corporate development opportunities (internal investments and M&A)
- Decisions and voting items (e.g., dividends, acquisitions, investments)
- Executive session (with and without management team members)
- Other business

Source: Denny Center research and analysis.

Most board agendas are prepared by the general counsel's office with significant input from the CEO, CFO, and COO. The board chair, if the role is separate from the CEO, and committee chairs also review and give input.

After approving minutes of the prior meeting (or meetings), the board receives reports from the CEO and executive management team. These reports cover company performance (operational and financial), status of key initiatives, updates on industry conditions, and forecast(s) of future performance. Some boards also use this time to discuss corporate performance relative to long-term strategic objectives. Board committees also report back to the full board, typically including audit, risk, compensation, and corporate governance. The remainder of the agenda includes discussion of action items requiring a vote (e.g., declaring a dividend, approving an acquisition, or approving budgets) and convening in executive session to assess CEO performance or to conduct a self-assessment.

Core Attributes of Board Governance, 2022

Emphasis on independent directors
Division of labor via board committees
Separation of chair and CEO roles
Focus on corporate purpose vis-à-vis stakeholder interests
Evolving measures on executive compensation
Compliance, compliance, compliance
Factoring in market forces for good governance

Source: Canals, Jordi. "The Changing Nature and Functions of Boards of Directors," IESE Business School Working Paper, April 2022. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4721856, accessed July 29, 2025.

More Time/Less Time from Director Perspective, 2024

Topics Needing MORE Time	Topics Needing LESS Time
Long-term strategy	ESG
CEO succession	DEI
Talent/human capital	Activism
Artificial intelligence	Geopolitical Uncertainties
Cybersecurity	

Source: Spencer Stuart Director Pulse Survey (2024), https://www.spencerstuart.com/research-and-insight/spencer-stuart-director-pulse-survey-time-commitment-2024, accessed September 4, 2025.

Though the core attributes of board agendas remain pretty stable over time, agendas are shaped by external factors including market forces, cultural norms, corporate governance innovations, and social views of business. Research from the IESE Business School summarizes the primary factors influencing board agendas today. Some of these factors are already evident in most agendas: emphasis on independent directors, importance of board committees, risk management and mitigation, and board chair/CEO role separation. Others are being incorporated in varying stages of progress: corporate purpose/stakeholder interests, new approaches to executive compensation, impact of market forces on governance and long-term strategy.

In its 2024 Director Pulse Survey, Spencer Stuart polled over 750 U.S.-based board directors. In addition to investigating how much time directors were investing annually, they also asked directors to comment on how they spent that time. The results show directors would like to spend more time on long-term strategy, CEO succession (plus other talent/human capital issues), artificial intelligence, and cybersecurity—and less time on ESG, DEI, activism, and geopolitical uncertainties. A smaller sample of respondents noted that management presentations take up too much board time, often crowding out time needed to tackle bigger strategic issues. One recommendation was to move executive sessions with the CEO to the top of the agenda which would facilitate tweaking time spent on other agenda items—and/or adding or deleting items if needed.

Deep Dive | Challenges

CHALLENGES

What external pressures are challenging boards today, and what dilemmas are boards facing as a result?

Like the businesses they govern, corporate boards don't operate in a vacuum; to the contrary, boards must contend with external forces and changing realities. Directors and their management teams must grapple with input from shareholders, lawmakers, regulators, employees, customers, social activists, and the media. In this section, we summarize the challenges that these external pressures present and highlight the dilemmas boards are facing.

External Board Pressures, 2024 & 2025

Shareholder activism and investor demands
Regulatory and legal scrutiny
ESG expectations
Cybersecurity and data privacy
Macroeconomic and geopolitical volatility
Public and media scrutiny
Talent and workforce expectations
Technology disruption and innovation

Source: Harvard Law School Forum on Corporate Governance including articles from Vinson & Elkins (2025), Jones Day (2024), PricewaterhouseCoopers (2024); Denny Center analysis.

The list of external pressures, compiled by Harvard Law School's Forum on Corporate Governance, may not contain any surprises, but it's sobering to see the list of constituencies all on one page. Before we offer advice to boards, we acknowledge that they have their work cut out for them—and face a high volume of shifting demands from a wide range of groups.

Board Dilemmas, 2025

Going on offense or defense (or both)
Engaging (or not) in social and political issues
Committing to a long-term strategy in a short-term world
Maintaining board focus amid expanding governance scope
Recruiting for subject-matter expertise or general leadership experience

Source: van der Ord, Friso, and Sikora, Ted. "Directors Should Prepare to Address Five Board Dilemmas in 2025," NACD, December 11, 2024. https://www.nacdonline.org/all-governance/governance-resources/governance-research/outlook-and-challenges/2025-governance-outlook/preparing-for-five-crucial-board-balancing-acts-in-2025, accessed July 29, 2025.

Board Efforts with Subpar Results, 2025

Setting and measuring returns of long-term strategy
Planning for CEO succession, knowing the executive team
Understanding corporate culture

Source: "Three Areas Where Boards Spend Their Time But Don't See Results," Russell Reynolds, February 24, 2025. https://www.russellreynolds.com/en/insights/reports-surveys/global-board-culture-and-director-behaviors-study/three-areas-where-boards-spend-their-time-but-dont-see-results, accessed July 29, 2025.

The National Association of Corporate Directors (NACD) has over 23,000 members representing close to 1,800 companies, and they recently polled their membership about significant trends that could impact their companies. The most frequent responses ranged from economic uncertainties and geopolitical volatility to competition for talent, but the study went further—translating these trends into dilemmas boards need to confront. The two that stand out are "committing to a long-term strategy in a short-term world" and "engaging (or not) in social and political issues." The board's resolve on long-term strategy could potentially go a long way in helping it also address social and political issues.

Russell Reynolds polled directors in early 2025, and they took a slightly different approach to evaluating board pressures and performance. Their survey identified high-priority areas in which directors had invested time but were not satisfied with results-to-date. It's not surprising to see long-term strategy show up again on this list, but also included are two of the three areas directly involving the people that make up the company and culture.

Deep Dive | Moving Forward

MOVING FORWARD

Why should boards care about the health of democratic capitalism, and how can they factor it into long-term strategy?

Over longer time horizons, corporate boards and their companies have a vested interest in the health of the societies in which they operate. Consumers that are prosperous and optimistic about the future, both individually and collectively, are good for business. In this section, we'll start by evaluating the definitions of stakeholder capitalism, and then build a case for boards to begin asking how their companies can better steward the health of democratic capitalism.

Definitions of Stakeholder Capitalism, 2023

Instrumental	Managers should respect stakeholders' interests when doing so will maximize long-term returns to shareholders.
Classic	Companies have ethical and legal obligations to stakeholders that must be respected whether or not doing so is likely to maximize shareholder value.
Beneficial	The corporate objective is improving all stakeholders' well-being (rather than just maximizing value for shareholders).
Structural	To protect stakeholder interests, stakeholders other than shareholders should have formal powers in corporate governance.

Source: Paine, Lynn S. "What Does 'Stakeholder Capitalism' Mean to You?", *Harvard Business Review*, Sep-Oct 2023.

The term stakeholder capitalism is used frequently, but what exactly does it mean? Harvard Business School professor Lynn Paine outlines four possible definitions, noting that "…proponents of stakeholderism take varying stances on the strength and basis of their commitment to nonshareholder stakeholders."[16] Professor Paine orders the four definitions from the weakest commitment to nonshareholder stakeholders to the strongest. Most U.S.-based public companies are likely to resonate with the first definition, "Instrumental", that looks very similar to traditional shareholder capitalism, but it adds two things: (1) giving explicit consideration to nonshareholder stakeholder interests, and (2) assessing shareholder value over a longer time period. Adopting this definition would enable boards to consider the interests of all stakeholders without de-prioritizing long-term shareholder value.

[16] Paine, Lynn S. "What Does Stakeholder Capitalism Mean to You?", *Harvard Business Review*. September–October 2023.

Time Horizons and Value Creation

Percent of firm enterprise value created in future years

YEARS 1-3	YEARS 4+
10-30%	70-90%

Source: Barton, Dominic. "Capitalism for the Long Term," *Harvard Business Review*, March 2011.

Rationale for Corporate Action, 2020

Economic interests
Resources and skills
Decision making agility
Global reach

Source: Henderson, Rebecca. "Reimagining Capitalism in a World on Fire." PublicAffairs/Hachette Book Group, 2020. p. 26.

The case for boards spending more time on long-term strategy is compelling on its face, but the financial reality makes a strong case even stronger. In 2011, McKinsey's finance experts deconstructed the value expectations embedded in share prices and found that 70–90% of a company's value is related to cash flows expected four or more years out. In the HBR article, "Capitalism for the Long Term", then managing director Dominic Barton noted that "…if the vast majority of most firms' value depends on results more than three years from now, but management is preoccupied with what's reportable three months from now, then capitalism has a problem."[17]

The roles of governments, policymakers, and regulators are necessary and important ingredients in competitive economies and markets, but that doesn't mean that the private sector, particularly large public companies, can't do more. The rationale, as Rebecca Henderson outlines in her book *Reimagining Capitalism* (2020), starts with the fact that businesses have a vested interest in the health of society, namely that they benefit from having optimistic consumers with growing standards of living in a stable community context. Businesses also have the resources, skills, and global reach to make change happen. Last but not least, companies can typically act faster than lawmakers.

[17] Barton, Dominic. "Capitalism for the Long Term", *Harvard Business Review.* March 2011.

Questions for Boards to Consider

Do we have a vested interest in keeping democratic capitalism healthy?
Does our limited liability status provide additional rationale for thinking differently about our obligation to society?
What actions could we take to better support democratic capitalism while continuing to create long-term value for our shareholders?
Are we spending enough time on long-term strategy?
Can we articulate how the interests of our various stakeholders are factored into our strategy?
Are shareholders of public companies the same as owners of private companies? What might the differences imply for public company board governance?

Source: Denny Center analysis.

If boards agree that: (1) nonshareholder stakeholder interests should be factored into the company's strategy, (2) thinking over longer time horizons is important because that's where the majority of value resides, and (3) businesses are uniquely positioned to make change happen, then they should consider adding the following questions to their agendas.

Deep Dive | Case Studies

What can we learn from companies that are actively factoring the interests of multiple stakeholders into their long-term strategies?

Employee Pay at Walmart

In 2015, Walmart decided to increase its starting wage to $9 an hour in what *The Wall Street Journal* calls "…the biggest pay raise in history. Investors reacted by sending Walmart shares down 10%, destroying $21.5 billion in market value in hours." The decision, now 10 years in the rearview mirror, was not solely driven by altruistic values toward employees; in fact, Walmart faced pressure from miserable workers and customers with bad shopping experiences. However, CEO Doug McMillon also believed that investing in front line employees would be a long-term win for Walmart as it struggled to grow sales volume at its stores and online. The company not only raised worker pay, but also designed steadier work schedules, reduced inventory clutter in backrooms, and increased the number of middle managers in the stores. Walmart now hosts a workforce-planning conference attended by high-profile company executives (including Blackstone and Bank of America), and its shares have increased by over 400% by the fall of 2025.[18]

Unilever and Sustainable Tea

When Paul Polman was appointed as Unilever's CEO in 2009, he challenged the company to consider a wide range of stakeholder interests when setting its strategy and operating practices, including customer health, environmental impact, and sustainable supply chains. At the time, Unilever's Lipton Tea brand sourced about 25% of its tea from sustainable farms based on their Rainforest Alliance certification status, well below its goal of 100%. The company believed that investing in sustainable tea farming was not only good for the environment and for local farmers and workers, but that it was also essential for the brand's long-term profitability; harsh farming practices focused on minimizing costs put workers, the land, and tea supply at risk. While Unilever was not able to recoup its higher supply costs via higher prices in every market, the company believes it considerably improved the health and longevity of its supply chain.[19]

Microsoft and Societal Impact

In its 2025 Impact Summary Report, Microsoft's Satya Nadella (Chair and CEO) and Brad Smith (Vice Chair and President) introduce the company's commitment to society: "We believe that Microsoft does well when the world around us does well. Our permission to operate—and to innovate—is not something we take for granted." The report covers a range of society-related impacts including supporting K-12 education via classroom technology, ensuring customer data security, building sustainable data centers, and innovating technology focused on people with disabilities. At first glance, this might sound too broad and grandiose, but, for example, the company reports on progress each year in a number of sustainability areas grouped by Microsoft internal (carbon, water, waste,

[18] Nassauer, Sarah. "Walmart, Once a Byword for Low Pay, Becomes a Case Study in How to Treat Workers", *The Wall Street Journal*, October 17, 2025. https://www.wsj.com/business/retail/walmart-employee-treatment-success, accessed October 28, 2025.

[19] This example is based on the Harvard Business School case, "Sustainable Tea at Unilever" (R. Henderson, F. Nellemann, 2012).

and ecosystems), customer initiatives, and global programs. A recent progress report highlighted that Microsoft has reduced water usage in its data centers by 18% since 2022, and its objective is to reduce water usage by 40% by 2030; its new data center design will save over 30 million gallons of water per center annually. Even if one takes Microsoft's sustainability efforts with a grain of salt, the company's acknowledgment that society has granted them permission to operate is the right place to start.[20]

Dow Chemical and Long-Term Focus

Dow Chemical is a founding member of the non-profit research firm, FCLTGlobal (founded in 2016), whose mission is "to mobilize companies and investors to focus capital on the long term to create lasting value." The logical question is whether Dow corporate actions reflect its FCLTGlobal sponsorship, and the answer appears to be yes. In 2025, Dow frames its corporate mission as its "ambition to be the most innovative, customer-centric, inclusive, and sustainable materials science company in the world" and asserts that this "ambition inspires best-in-class performance and contributes to long-term value creation for our customers, shareholders and society." In what it calls "Purpose in Action", Dow's strategic planning time horizon stretches out to at least 2050, and as an example, its sustainability targets span from 5 to 25 years: (1) reduce carbon emissions by 15% by 2030 (versus 2020 baseline) and achieve carbon neutrality by 2050, and (2) close the loop so that 100% of Dow products use reuseable or recyclable packaging.[21]

[20] Microsoft 2025 Impact Summary, https://www.microsoft.com/en-us/corporate-responsibility/impact-summary, accessed October 29, 2025.

[21] Dow website https://corporate.dow.com/en-us.html, and FCLTGlobal website https://www.fcltglobal.org/, accessed October 29, 2025.

Reactions: Betsey Stevenson and Michael Strain

Two economists—Betsey Stevenson (University of Michigan) and Michael Strain (American Enterprise Institute)—share their views on the current state of democratic capitalism and contemplate present-day aspects of corporate governance.

What Can the Private Sector Do to Increase Support for Democratic Capitalism?

AN ESSAY BY BETSEY STEVENSON (NOVEMBER 2025)

1. THE CONFIDENCE GAP: WHEN PROSPERITY DOESN'T FEEL LIKE PROGRESS

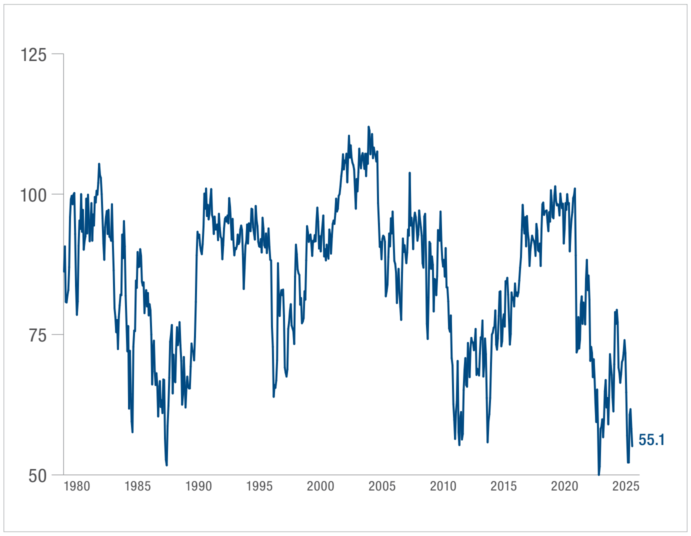
Coming out of the pandemic, the United States' growth and jobs picture repeatedly beat expectations. Real GDP rose 2.9% in 2023 and 2.8% in 2024. By 2023 the level of real output had exceeded some pre-COVID forecasts and yet robust economic growth continued. The United States led the G7 in cumulative growth from the eve of the pandemic to mid-2025. In total the U.S. grew 13.3% between Q4 2019 and Q2 2025, compared with only 8.4% in Canada, 5.2% in the U.K, and 6.0% in the Eurozone overall.[22]

Labor markets over the past few years have been historically tight. The unemployment rate hit a 54 year low in 2023 and prime-age employment reached multi decade highs. In mid-2024 women's prime age employment hit a record. The unemployment rate has slowly drifted up from its low of 3.4% in April 2023 to 4.3% in August 2025, but it remains low by historic measures. Similarly, the employment-to-population ratio has drifted down, but only slightly. As of August 2025 the overall 25–54 employment to population ratio was 80.7%, just above the pre-pandemic, post-2008 recession high of 80.6%. Relative to pre-pandemic projections, overall employment also overshot the CBO's January 2020 path by millions of jobs by late 2024.[23]

In short, by objective measures the economy is strong. There are lots of jobs, wages have risen, and incomes have grown.

Yet despite these gains, consumer sentiment has been unusually weak: the University of Michigan index hit an all-time low in June 2022. While it improved in 2023 and 2024, it fell back near those lows in November 2025. **Figure 1** shows that consumer confidence has been lower on average since early September 2021 than any other four period since the monthly series began in 1978.

Consumer Confidence is at Recessionary Levels



University of Michigan Consumer Sentiment Index.

[22] Harai, Daniel "GDP International Comparisons: Economic Indicators" House of Commons Research Briefing https://commonslibrary.parliament.uk/research-briefings/sn02784/.

[23] Rinz, Kevin "The U.S. Labor Market Keeps beating projections" Center for Equitable Growth November 5, 2024 https://equitablegrowth.org/the-u-s-labor-market-keeps-beating-projections/.

This gap between the hard data and how people feel is what economics communicator Kyla Scanlon called a "vibecession" in 2022. The data are good, but the vibes are not.[24]

The "vibecession" describes a simple contradiction: even as growth, jobs, and household finances improved after the pandemic, many people felt worse. Some of the explanation for the vibecession lay in the temporary surge in inflation in 2022 and the subsequent higher price levels. The temporary burst of inflation in 2022 raised the overall price level quickly; when inflation later cooled, prices didn't roll back, they just rose more slowly. While nominal wages have also stayed high (indeed real wages increased), people see nominal wages as returns to their hard work and high prices are getting in the way of them actually getting ahead. The higher prices eroded the psychological benefits of the substantial wage and equity gains that left families on average much better off, even once those higher prices were accounted for. In everyday terms, "the economy" looked good on paper, but groceries, rent, childcare, and repairs still cost more than before, so the lived experience didn't match the headlines.

The Fed brought inflation down in 2023 and in 2024 came close to hitting its target inflation rate of 2%. But slowing the rate of inflation doesn't lower prices. Families faced higher, stickier costs in the essentials and high commitment items including housing, childcare, car purchases and insurance. These higher costs are not easily remedied by more comparison shopping or cutting back. And even when a raise or promotion meant that paychecks stretched a bit further, the memory of rapid price jumps and the shock of higher monthly payments for essential items made progress feel conditional, fragile, and reversible. It's the feeling that every break comes with caveats, that there's always a catch.

That gap tapped into a deeper frustration that has been building for decades. People are living in more square footage than ever before and homeownership rates are high, but a lack of lower-price smaller housing has made housing seem overpriced and out of reach to many. Healthcare is better than ever before, with the death rates from heart attacks, cancer, asthma, and childbirth are more substantially lower than even at the turn of the 21st century. However, healthcare pricing is laughably bad. Who can pay $10,000 for an emergency room visit or $2,000 for an ambulance ride? And too many people had no choice in these costs.

Too many feel that they just can't catch a break. Every victory appears to be pared with a setback. The result is running hard yet staying in place. These frustrations show up in declining trust in institutions, fraying communities, and persistent uncertainty about what a fair economic system looks like. These pressures have created fertile ground for populist movements on both the left and the right, movements defined less by coherent economic programs than by the belief that the system is rigged, that undeserving others are benefitting, and that long-standing democratic guardrails no longer offer protection. Across the political spectrum, skepticism toward free markets has grown, echoing global trends toward protectionist and top-down industrial policy. Yet the two wings of populism channel these grievances in different directions: the populist right increasingly fuses cultural and ethnonational resentment with anti-democratic impulses, while the populist left locates blame in concentrated corporate power and economic inequality.

These same frustrations are amplified by everyday interactions with the marketplace that make economic life feel adversarial rather than cooperative. Hidden fees,

[24] https://kyla.substack.com/p/the-vibecession-the-self-fulfilling.

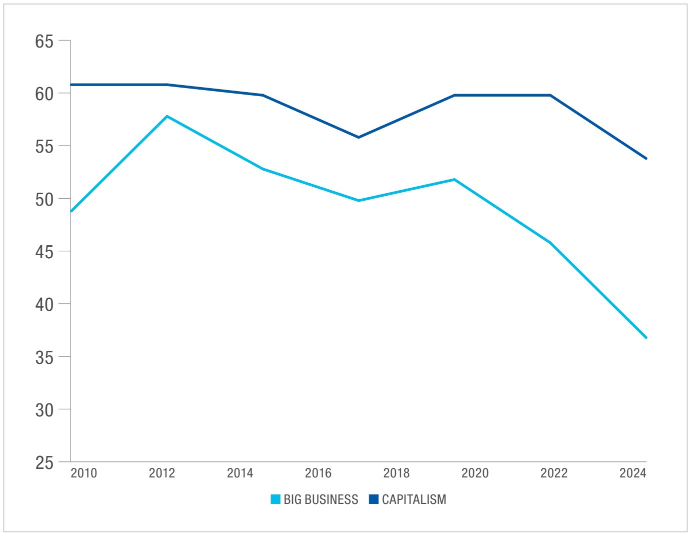
opaque pricing, impossible cancellations, and the sense of being exploited by powerful firms have eroded Americans' faith not only in government but also in markets themselves. This erosion of trust reinforces the populist narrative on both sides: that the system rewards the wrong people, punishes the deserving, and is fundamentally tilted against ordinary citizens. The rise of insular, protectionist industrial policies is not limited to the United States; political parties around the world are abandoning traditional commitments to free trade and open competition. What distinguishes the populist right from the populist left is less their distrust than their choice of villains and the particular winners and losers they seek to elevate.

The private sector's challenge is to help build societal trust and make capitalism feel fair again. Companies can rebuild confidence by competing on the merits, expanding opportunity, and acting as responsible stewards of civic institutions. The material security that comes from good jobs, reliable social insurance, predictable rules is not just an economic objective; it is a democratic guardrail. That democratic guardrail is also necessary to maintain public support for the kind of healthy competition that allows successful companies to profit and improve well-being through meeting people's needs in new and more efficient ways.

2. DECLINING TRUST IN BIG BUSINESS AND CAPITALISM

Faith in capitalism as a system is weakening. Gallup found in its latest survey that only 54% of people report a positive image of capitalism, the lowest share since they started asking the question in 2010. Americans' positive ratings of big business has had an even bigger decline, with only 37% reporting a positive image of big business in 2025 as shown in Figure 2. Young adults are particularly skeptical. In a 2022 Pew survey, just 40% of Americans aged 18–29 viewed capitalism positively while a similar share viewed socialism positively (Pew Center Research, 2022). A Gallup survey found that only 15% of Americans had a great deal or quite a lot of confidence in big business (Brenan, 2025). And yet, 81% of Americans have a positive image of free enterprise and 70% of Americans have a great deal or quite a lot of confidence in small business. This polarization—liking Main Street while doubting "the system"—is the trust problem businesses need to solve.

Percent with Positive Views of Big Business and Capitalism



It is worth noting that Americans do not seem to believe that regulation of companies will solve their problems. Roughly a fifth want to see an increase in regulation, while a quarter want to see a decrease in regulation. These shares have been roughly stable for a decade. What they do want is for major corporations to have less influence: 62% of respondents say they want major corporations to have less influence than they currently have, compared to only 37% of respondents in 2001.

In short, Americans still believe in free enterprise and small businesses, but they have lost faith in large companies and the economic structure that they believe gives these companies an edge over everyone else. This erosion of trust has fed zero sum narratives about markets and trade, fueling populist backlash and ultimately contributing to anti-trade policies and increased government interest in the day-to-day operations of companies. For diversified investors, this erosion of confidence is not just a cultural problem; it is a balance sheet problem. When voters and policymakers lose faith in markets, the result is a more volatile policy environment, a higher probability of regulatory shocks, and growing pressure for interventions that can destroy value even when well intentioned. From that perspective, investments in trust through fair competition, transparent pricing, and credible governance are not a departure from shareholder value but a precondition for sustaining it over time. Most Americans want companies to change without regulation. The problem is while Americans agree that the system is broken, they do not agree on how to fix it. This gives big business an opportunity to lead the way in rebuilding trust.

3. COMPETE ON THE MERITS: MAKING MARKETS FEEL CONTESTABLE

One way to fix it is for big business to embrace the spirit of small business and free enterprise that Americans still love. Healthy capitalism should be synonymous with free entry because healthy capitalism relies on rivalry. When competition erodes, business, and capitalism itself, loses legitimacy. Rivalry is not just a mechanism for driving down costs; it is the institutional assurance that no one is locked in, that better ideas can displace worse ones, and that market power must constantly be earned rather than inherited. The more people feel they are trapped, tricked, or taxed by hidden charges and artificial frictions, the less they experience markets as fair arenas for mutually beneficial exchange and the more they see them as devices for exploitation.

When firms rely on rent extraction through friction—hidden fees, dark patterns, and cancellation barriers—rather than through genuine value creation, capitalism undermines its own foundations. In the short run, especially in concentrated or heavily regulated sectors, these practices can be rational responses to competitive and regulatory constraints: they raise revenue without large new investments. But precisely because they are hard to defend in public and easy to attack in politics, they are among the most fragile sources of profit. The classical case for markets is not merely that they are efficient, but that they enable impersonal, rule governed rivalry among firms. If customers believe that bad service can be punished by exit, that they can switch providers without prohibitive cost, and that prices reflect underlying value rather than traps, markets look like arenas of fair competition. When rivalry is strong and markets are contestable, it is easier for citizens to accept the inequalities that markets generate, because those outcomes can plausibly be attributed to merit, effort, or successful innovation. When contestability erodes, perhaps because exit is hard, practices are opaque, or incumbents engineer artificial frictions, then market outcomes look less like the result of fair rivalry and more like the result of rigged games. That is where capitalism's legitimacy begins to fray.

The private sector over time has seen growth in rents from frictions. These profits arise not from superior value but from making it difficult for customers to understand prices, compare offers, or leave. This is not value creation; it is value obfuscation. All of these practices rely on people's willingness to pay to avoid hassle, confusion, or regret rather than for value actually received. They siphon surplus from consumers' cognitive limitations and time constraints.

For boards and investors, the first step is to know how much is at stake. Management teams should be able to produce a simple map of where revenue and profit are coming from: how much is tied to transparent, repeat, voluntary usage, and how much is tied to fees, penalties, and difficult exits. In some industries friction based income is material. The goal is not to eliminate this revenue overnight, but to understand how exposed it is to competition, regulation, and reputational shocks and to plan a gradual shift toward profits that are easier to defend to customers, regulators, and long term shareholders.

Everyday experiences of unfairness and opacity in consumer markets become politically salient. What might otherwise be understood as positive sum exchange increasingly looks like a struggle over who can grab the surplus before someone else does. And then it is not long until the entire system of global trade and capitalism itself is suspect.

If friction based rents are corrosive, what can companies and policymakers concretely do to restore faith in markets? First, companies should make their value proposition clear through plain pricing. Transparent pricing does not forbid differential pricing or discounts. Far from it. Companies can improve overall welfare through competition on product differentiation, customer service, and their ability to price discriminate. Different prices for different customers can both maximize profits and ensure that those with a lower willingness to pay are still able to access the product. Plain pricing simply insists that the offer a consumer sees reflects the total amount they will pay in ordinary use. When boards are overseeing companies they should be paying attention to where growth is coming from. If it is coming from opaque pricing, then the company is unlikely to be creating enough value for customers to willingly buy again. Designing traps that customers only fall into once or twice does not make for long-term profitability. A practical way forward is to track the share of revenue coming from surcharges, penalties, and junk fees, set explicit targets for reducing that share over time, and tie a small but meaningful portion of executive variable compensation to meeting those targets while sustaining or improving overall profitability.

Companies should also ensure that any contract entered online can be exited with comparable ease ideally via one click cancellation or a closely equivalent process. Again, trapping customers rather than creating sustainable value is neither a system that builds trust nor is it one that builds repeat business. Companies and boards should track company churn rates with a goal of keeping customers willingly, not by trapping them. One practical test is to compare churn and complaint rates across jurisdictions with different consumer-protection regimes: if retention collapses when cancellation rules are tightened, the business was relying on friction rather than value. Investing up front in easy exit often reduces call-center load, chargebacks, and regulatory complaints, and pays for itself in lower acquisition costs and higher lifetime value from customers who choose to return. Good corporate policy treats ease of exit as a design objective, not as a regrettable leak in a revenue funnel. Such policies signal to both regulators and customers that the firm expects to retain business through satisfaction, not through lock in.

Companies should adopt explicit internal principles for building trustworthy choice architecture. Disguised ads, trick questions, or default add-ons create distrust from customers and invite regulation from policy-makers. In contrast, regular reviews of frictions to ensure that they are justified by user protections rather than revenue maximization can show both customers and regulators that businesses are playing by the rules of fairness without the extra red-tape of regulation. These reviews should be periodic, documented, and overseen by a committee that reports to the board, so that behavioral design is treated like any other risk bearing activity: governed, audited, and aligned with the firm's long term strategy.

These are not acts of charity; they are investments in the social infrastructure that makes markets work. When buyers and sellers genuinely feel like willing participants in positive sum exchanges, rivalry can once again serve as a source of both prosperity and legitimacy. Self discipline, backed by boards and investors, does not guarantee lighter regulation—public pressure is too complex for that—but firms that can show they have already eliminated the worst abuses, track relevant metrics, and treat trust as a core risk are better positioned to shape smarter rules, avoid the harshest sanctions, and sustain premium brands and valuations.

4. POLICIES TO SUPPORT DEMOCRATIC CAPITALISM

Markets and democracy are intertwined: both depend on openness, fairness, and trust. When citizens see competition, opportunity, and accountability in their daily economic interactions, they are more likely to believe in the promise of democratic capitalism. The private sector cannot repair democracy alone, but it can lead by example, proving through conduct that capitalism, governed by fair rules and dynamic rivalry, remains humanity's most powerful engine for freedom and flourishing.

Democratic capitalism depends on trust in central banks, courts, regulators, and the media. When institutions fail to deliver shared security, anti-pluralist movements gain space. Boards should treat institutional trust as a form of enterprise risk, reviewed with the same discipline applied to cyber, climate, or supply chain risk. That means asking management to identify where the company's business model depends on predictable rule of law, impartial enforcement, or trusted information flows, to stress test earnings and valuation against scenarios of institutional decay, and to evaluate how the company's own political activity, lobbying, and public messaging affect that risk profile.

Companies should be transparent in their political involvement. While the CPA-Zicklin Index standards are voluntary and not every policy may be right for every company, boards should be aware of the standards and work with management to make active, purposeful decisions about disclosing political activity. To do this, boards must review all political activity to both develop a strategy that is successful given the political and policy environment and to ensure that the political activities align with corporate values.

Companies can also strengthen civic participation directly, but they should do so with the same focus on materiality and measurement that they bring to other investments. Initiatives such as paid time off to vote, support for election administration, or targeted investment in local journalism should be narrowly focused on process integrity rather than partisan outcomes, tied to clear objectives such as talent attraction and retention, brand trust in key markets, or reduced regulatory and litigation risk and periodically evaluated against those objectives. Framed this way, civic investments are not free floating corporate activism; they are part of safeguarding the rule bound environment in which long term private investment pays off.

Open economies are more prosperous and more democratic. At the same time, firms now operate in a world where industrial policy and protectionist sentiment are not going away. The practical question for business is how to navigate this landscape without drifting into pure rent seeking. Businesses should advocate for open markets and recognize the risks of strategies that entrench incumbents. Where sector wide incentives or subsidies exist, firms should compete for them on the basis of productivity and innovation, while supporting rules that are transparent, time limited, and contestable rather than tailor made for a few favored players.

In sum, companies can adopt these five policies to support democratic capitalism:

- **Political Activity Oversight –** Annual board review of all political contributions, trade association memberships, and lobbying priorities, mapped explicitly to the firm's core policy objectives and key risk scenarios.
- **Civic Participation Policy –** Provide paid time off to vote or serve as poll workers; support community wide civic participation through strictly nonpartisan volunteer days and the distribution of neutral voter information vetted by independent organizations.
- **Competition Credibility Charter –** Commit to plain pricing, one click cancellation, and supplier mobility. Track the share of revenue from fees and frictions, churn by customer segment, complaint rates and resolution times, and regulatory actions. Set explicit, multi year targets for shifting the mix of profits toward repeat, voluntary business.
- **Transparency Dashboard –** Track and, where appropriate, disclose key indicators of trust and contestability such as fee and surcharge revenue, churn, complaint volumes and resolution, independent trust scores alongside traditional financial metrics, so that the source of, and potential risks to, profits is clear.
- **Incentive Alignment for Trust –** Consider embedding a portion of executive and business unit variable compensation in multi year targets for trust and competition metrics, ensuring that leadership has skin in the game for sustaining fair, rivalry ready markets as the foundation of durable returns.

5. CONCLUSION

Democratic capitalism in the United States is not failing on the economic scoreboard so much as it is failing a test of trust. The "vibecession" captures a real and deeply felt dissonance: people see low unemployment and rising incomes, yet experience their economic lives as precarious, adversarial, and rigged. That dissonance invites populist stories that cast markets as zero-sum, institutions as captured, and fellow citizens as competitors rather than partners. If left unaddressed, it will continue to erode both the social license that markets require and the democratic guardrails that markets, in turn, depend upon.

The private sector cannot resolve every source of grievance or polarization, but it can decisively shape how the economic system feels in everyday life. By competing on the merits instead of on frictions, firms can make markets visibly contestable and visibly fair. Plain pricing, easy exit, and honest choice architecture are not only good consumer policy; they are the microfoundations of legitimacy, signaling to people that success flows from value created, not from traps laid. Likewise, when companies defend independent "referees" rather than seeking regulatory favors, and when they are transparent about their political activity and supportive of civic participation, they help stabilize the institutional frame within which both democracy and markets function.

The agenda sketched here is not a call for corporate altruism, but for enlightened self-preservation. Firms that treat trust as a core asset by adopting political-activity oversight, civic participation policies, competition credibility charters, and transparency dashboards are investing in the very conditions that allow open markets and open societies to persist. Restoring confidence in democratic capitalism will require sustained public leadership and smart policy, but it also requires millions of private decisions to forgo easy rents in favor of durable relationships. If businesses choose to compete fairly, act transparently, and support the civic commons, they can help turn strong economic fundamentals into shared confidence that the system works—and is worth defending.

REFERENCES

Brenan, Megan. 2025. "Democrats' Confidence in U.S. Institutions Sinks to New Low." *Gallup News*, July 17, 2025.

DeLong, J. Bradford. 2022. *Slouching Towards Utopia: An Economic History of the Twentieth Century*. New York: Basic Books.

Edelman. 2020. *2020 Edelman Trust Barometer: Global Report*. Edelman Trust Institute.

Edelman. 2024. *2024 Edelman Trust Barometer: Global Report*. Edelman Trust Institute.

Edelman Trust Institute. 2025. *2025 Edelman Trust Barometer: Trust and the Crisis of Grievance*. Edelman Trust Institute.

Galbraith, James K. 2014. *The End of Normal: The Great Crisis and the Future of Growth*. New York: Simon & Schuster.

Galbraith, James K. 2025. "Economists' Way Out of the Wilderness." *Project Syndicate*, January 20, 2025.

Hubbard, R. Glenn. 2022. *The Wall and the Bridge: Fear and Opportunity in Disruption's Wake*. New Haven, CT: Yale University Press.

International Monetary Fund. 2017. "The Economics of Trust." *IMF Blog*, May 10, 2017.

Jones, Jeffrey M. 2025. "Image of Capitalism Slips to 54% in U.S." *Gallup News*, September 8, 2025.

Kennedy Shaffer, Lee. 2025. "One Person, How Many Votes? Demographic Distortions in United States Elections." Preprint, arXiv, 2025.

Knack, Stephen, and Philip Keefer. 1997. "Does Social Capital Have an Economic Payoff? A Cross Country Investigation." *Quarterly Journal of Economics* 112 (4): 1251–88.

Koyama, Mark, and Jared Rubin. 2022. *How the World Became Rich: The Historical Origins of Economic Growth*. Cambridge, UK: Polity Press.

Pew Research Center. 2019. *Trust and Distrust in America*. July 22, 2019.

Pew Research Center. 2022. "Modest Declines in Positive Views of 'Socialism' and 'Capitalism' in U.S." September 19, 2022.

Smith, Conal. 2020. *Trust and Total Factor Productivity: What Do We Know about Effect Size and Causal Pathways?* Wellington: New Zealand Productivity Commission and New Zealand Treasury.

Stevenson, Betsey. 2024. "The Resilient and Growing Economy That Americans Hate." Denny Center for International Relations.

Stevenson, Betsey. "The Economics of Transformative AI." (University of Chicago Press, 2025), chap. 10, https://www.nber.org/books-and-chapters/economics-transformative-ai/what-there-fear-post-agi-world.

Stevenson, Betsey. 2025. "When Democracy Falters: A Multibook Review Essay on Polarization, Populism, and Authoritarianism." NBER Working Paper.

Stevenson, Betsey, and Justin Wolfers. 2011. "Trust in Public Institutions over the Business Cycle." *American Economic Review* 101 (3): 281–87.

Thibault, Sébastien, Dan Balz, Clara Ence Morse, and Nick Mourtoupalas. 2023. "The Hidden Biases at Play in the U.S. Senate." *Washington Post*, November 17, 2023.

Betsey Stevenson is Professor of Public Policy and Economics at the University of Michigan.

The State of Democratic Capitalism in 2025: CEOs Should Maximize Shareholder Value

AN ESSAY BY MICHAEL STRAIN (OCTOBER 2025)

Democratic capitalism is a political and economic system that marries free markets with democratic governance. In a system of democratic capitalism, the market must provide the employment opportunities and material prosperity necessary to maintain the legitimacy of democratic governance. By the same token, the political sphere must give the market the freedom to deliver on this responsibility.

This creates a natural tension, because the political system may wish to curtail market forces to an unhealthy degree, or because market outcomes may have the perverse effect of eroding—rather than strengthening—popular support for liberal democracy. But when the right balance is struck, this tension is healthy. Indeed, over the long term, liberal democracy and free markets go hand in hand, each supporting the other and advancing its longevity. Liberal democracy requires free-market capitalism to flourish, and free markets cannot be maintained without liberal, democratic politics.

Support for liberal democracy means supporting the norms, institutions, and rule of law that underpin America's political system. Support for free markets does not mean support for "free market fundamentalism." Rather, it means adhering to the broad, bipartisan consensus that held in Washington in the four decades prior to 2017. This consensus emphasized the importance of broad-based economic growth and allowed market forces to determine the composition of American industry, investment, and employment.

But a healthy system of democratic capitalism recognizes that market outcomes may not always be socially desirable or, indeed, economically efficient. To address those issues, it is laudable for government to sacrifice some amount of economic growth to create programs that advance economic opportunity, encourage participation in economic life, promote the health and safety of workers, and correct market externalities. Of course, governments must raise tax revenue to fund public goods and safety net programs, which provides a further drag on economic growth.

With that in mind: What is the state of democratic capitalism in 2025?

The economy is certainly holding up its end of the bargain. Over 95 out of every 100 workers who want a job have a job. The share of the prime-age population with a job—people ages 25 to 54, who are typically too old to be in school and too young to have retired—has, at 80.7 percent in August, fully recovered from its pandemic-era losses. A greater share of this population was employed this summer than in the years prior to the 2008 financial crisis. According to my calculations, the inflation-adjusted average hourly wage stood at $29.94 in August—outside of a blip during the pandemic, the highest on record. The U.S. Census Bureau reports that inflation-adjusted median household income has never been higher, as well.

Concerns at the beginning of the year that the economic growth might sputter seem to have been misplaced. At the time of this writing, GDP is expected to have grown at an annual rate close to four percent in the third quarter of this year. That pace is well above the economy's underlying sustainable rate of growth. This growth is fueled by AI investment spending and by consumer spending, which itself is supported by low unemployment, high inflation-adjusted incomes, and high levels of household wealth.

Indeed, the health of America's political system is of much greater concern than of its economy. President Trump has shown blatant disregard for the rule of law, the norms governing his office, and the due process rights of his political adversaries. To be sure, the system has held, with the courts showing a willingness to restrain the president. But the system is being tested.

Throughout American history, political power has ebbed and flowed across the three branches of the federal government. The most benign interpretation of what we've seen is that we are witnessing the continuation of a disorienting trend—one that predates President Trump—of the presidency gaining power at the expense of Congress and the courts. The more troubling interpretation is that President Trump is intent on advancing his agenda as far as he can, regardless of legal constraints and norms.

For democratic capitalism to be at full health, both the market and liberal democracy need to be healthy. But democratic capitalism is a political-economic system that marries the two, and the marriage needs to be healthy, as well.

That marriage has been weakening for some time. President Trump's first-term trade war was a form of industrial policy: Government intervention in the economy to override market outcomes with the goal of promoting a politically favored industry. Viewed through the lens of democratic capitalism, it can be thought of as the political sector not respecting a proper role of markets, which is to determine the composition of industry and employment.

Mr. Trump was dissatisfied with the market-driven composition, and wanted to use the power of the state to increase manufacturing output and employment. The result was predictable: Consumer prices increased, eroding the purchasing power of workers' wages and household income; and the manufacturing sector became less competitive and experienced downward pressure on employment, because the tariffs increased the costs facing domestic manufacturers.

President Biden largely kept in place his predecessor's tariff regime, and expanded government intervention into the market through the Inflation Reduction Act (IRA). The IRA would have spent around $1 trillion with the goals of boosting the clean-energy sector, encouraging consumers to purchase electric vehicles, and increasing manufacturing employment. Its subsidies for domestic clean-energy production were so aggressive—and so disadvantaged our trading partners—that French president Emmanuel Macron warned that the IRA could "fragment the West."

In his second term, President Trump has escalated the scale and scope of his interventions. When he took office in 2017, the average tariff rate applied by the U.S. to imports was 1.5 percent. In 2020, the average tariff was 2.9 percent, and in January 2025 it was 2.4 percent. At the time of this writing, the average tariff is 18 percent. This represents an aggressive attempt to reshape the composition of employment and industry that is inconsistent with a healthy and well-functioning system of democratic capitalism. It invites cronyism and corruption, as companies try to escape the tariffs by lobbying the government for special treatment. This cronyism and corruption itself harms market outcomes.

As has been widely noted, the trade war is hurting businesses and households. And as has been less widely discussed, it represents an attack on the spirit of the U.S. Constitution—the president is attempting to increase taxes by several hundred billion dollars per year unilaterally, without the authorization of the U.S. Congress.

The president has weakened democratic capitalism in other ways in 2025. He has directed the government to take equity stakes in private companies, most notably in Intel. Needless to say, when U.S. democratic capitalism is at peak strength, the U.S. government does not own private-sector companies. Such an arrangement will surely hinder the ability of those companies to maximize their social contributions because they will be constrained by politics, unable to fully—or, in some cases, even adequately—respond to market signals. For example, in order to be as competitive as possible, Intel might need to lay off workers and close factories in swing states in the 2028 presidential election. With the government as its largest shareholder, this would be hard for Intel to do.

Government ownership creates damaging ripple effects. Will companies in the market to purchase semiconductors buy from Intel for fear of the Trump administration retaliating against them, even if purchasing chips from an Intel competitor is a better business decision? Will suppliers to Intel come under similar pressure from the government?

All these considerations will lead to situations in which investment does not flow to its highest use, and productivity growth and the pace of innovation are slower than they otherwise would be. Wage and income growth will be slower as a consequence, and living standards will rise more slowly than would have been the case.

Viewed through the lens of democratic capitalism, we can think of partially state-owned enterprises as the government weakening the ability of the economy to generate increases in living standards. Of course, there is nothing inherently wrong with sacrificing economic efficiency to advance political goals—e.g., it is laudable and appropriate for the government to slow economic growth in order to offer earnings subsidies to low-income households. But there is a point at which the economic costs outweigh the political/social benefits—and these partially state-owned companies are well beyond that point.

Similarly, President Trump has offended a healthy democratic capitalism by shaking down firms. The most notable example of this is the president demanding that the government receive a cut of the revenue Nvidia and AMD will generate from sales of certain chips to China, in exchange for the government granting those companies licenses to export those chips to China.

There are many reasons why this action is harmful, but from the lens of democratic capitalism, we can critique it on the grounds that the government is reaching further into the market than it should, making it harder for the private sector to generate prosperity with no benefit to the American people in terms of social or political outcomes.

The president's attacks on the Federal Reserve are a major threat to long-term prosperity and a healthy democratic capitalism. The Fed is the nation's central bank, charged with ensuring that consumer price inflation is low and stable and that the labor market stays tight, keeping the economy at full (sustainable) employment. Over the course of the last century, it became clear to central banks and governments around the world that long-term prosperity was advanced when monetary policy decisions were made independent of short-term political considerations and when central bankers were able to set interest rates without interference or pressure from elected officials.

The reason for this is intuitive: It is often in an elected official's interest for the central bank to keep interest rates lower than economic conditions suggest, because lower interest rates will juice economic demand and put downward pressure on the unemployment rate. But if interest rates are kept inadvisably low for too long, consumer price inflation will accelerate, eroding the purchasing power of workers' wages and household income and making it harder for businesses to make long-term plans. By the time inflation becomes a problem, the official who applied pressure has his or her election in the rear-view mirror.

The institution of central bank independence illustrates a healthy democratic capitalism. It reflects a decision made by the political system to restrain itself in order to allow the market to generate long-term prosperity for households and businesses. Over a long time horizon, this prosperity in turn strengthens support for and the legitimacy of liberal democracy. Dismantling it represents political overreach into the proper functioning of markets.

The president is guilty of this overreach by bullying Fed Chairman Jay Powell with the hope of pressuring the chairman to lower interest rates against his better judgment. The president has also chosen to weaponize the threat of criminal prosecution in order to pressure Fed Governor Lisa Cook to resign, which would allow him to replace her with a less independent governor.

In both his first and second term, President Trump has made clear that he is actively hostile to Fed independence. With the chairmanship coming open next year, it is imperative that the Senate make sure Mr. Powell's successor is both independent of the president and is perceived to be independent of the president.

With all that in mind, let's return to the question: What is the state of democratic capitalism in 2025? Strong—but weakening. Strong, because the economy continues to deliver employment opportunities, innovation, and advances in living standards. Strong, because the political system continues to be characterized by liberal-democratic norms and institutions. Strong, because, on the whole, the economy is providing the legitimacy needed for liberal democracy to flourish, and the political system still broadly reflects the restraint required for the market to generate long-term prosperity.

Strong—but weakening. Weakening because liberal-democratic norms and institutions are being tested by the president. And weakening because the president is encroaching on private markets to a degree and in a manner that threatens to slow the rise of living standards without material social or political benefits for the American people.

What are the implications of this for large corporations? More broadly, what is the role of businesses in a system of democratic capitalism, and how does a weakening democratic capitalism inform that role? I'll offer three points of response. All three would be true if democratic capitalism were strengthening, not weakening. But particularly with the third point, I will highlight the role of corporations in our current environment.

First, leaders of large businesses should remember that their first responsibility—and the way they contribute to society—is by maximizing shareholder value. By maximizing profit. A sufficient argument to support this view is first to observe that businesses are the private property of their owners, and not a private fiefdom for executives. Shareholders own large, publicly traded companies in the same way that I own the shirt on my back and the watch on my wrist.

The legal and moral responsibility of executives is to pursue the objective set by owners, which is (typically) to maximize profits. If this weren't true, then executives would, by definition, be pursuing objectives against the wishes of their owners. But that would be absurd, given that the firm is the property of the owners. Quod erat demonstrandum.

This is correct, legally and morally. It is also correct as a practical matter. Charging large corporations with, for example, addressing the wage structure of the overall labor market is beyond their competence and ability. Moreover, doing so would invite inconsistencies. If CEOs are responsible for reducing wage inequality, then they might choose to substantially increase the wages of their non-college-educated workers. But this could eliminate profits while forcing large corporations to increase consumer prices, which in turn would erode the purchasing power of workers' wages.

This is a controversial view, in part because it is misunderstood. Noting what this view does not argue helps to illuminate what it does. Arguing that the social responsibility of businesses is to maximize profits does not argue that businesses should break—or inappropriately bend—the law. It does not argue that firms should behave unethically if doing so would increase profits. It does not argue that businesses should treat their workers, customers, and suppliers poorly.

Companies that break the law are not maximizing shareholder value, they are behaving criminally. Companies that fund junk science to beat back regulation may juice earnings for the near term, but they are putting at risk their reputation and reducing their long-term value. The present discounted value of their future profits would often by lower by behaving unethically. Similarly, to maintain profitability over the longer term, corporations must treat their workers, customers, and suppliers fairly and ethically.

The real insight here is that executives should manage their companies in line with the wishes of the owners of those companies. If the owners wish for the company to give to philanthropy, clean up neighborhood parks, or source materials from suppliers that are higher cost and cleaner, then executives should follow those wishes.

Second, businesses should understand themselves as offering a service to society, and should communicate that understanding broadly. In a system of democratic capitalism, businesses face heavy market competition. This brings the goods and services they produce into close alignment with the preferences of the American people. Businesses that survive the market test are those that can produce the goods and services the American people want in an efficient, low-cost manner. This efficiency frees up economic resources for other firms to use, creating consumption abundance and employment opportunities. By producing goods and services efficiently, corporations are contributing to rising living standards. Profitable companies, then, are often the companies that are most successful at efficiently providing the goods and services people want and need.

By responding to consumer preferences, these decisions are shaped by social pressure. As society became more health conscious, for example, fast food restaurants began offering fresh fruit on their menus. As the health risks from tobacco cigarettes became more widely accepted, the market responded by providing e-cigarettes. These examples illustrate the general point that businesses in the democratic-capitalist system are not pursuing profits in a vacuum. By competing to provide the goods and services the American people want, they are inherently responding to social pressure.

The business community should be proud of its contributions to society—and should be unafraid to champion them. We live in an age of wonders. Pharmaceutical companies were able to quickly design and produce vaccines to combat Covid-19 pandemic. Without these, the cost of the pandemic in terms of lives and dollars would have been multiples higher. There is reason for optimism that revolutionary treatment for neurodegenerative disorders may soon allow people more time to spend with their loved ones. This, again, would be a social contribution of business. In 2025, the efforts of private companies led to advances in generative artificial intelligence tools, which hold the promise, for example, to substantially increase the quality of education enjoyed by young people all around the world. With better education, more people will live full and flourishing lives.

Third, large corporations should think of themselves as citizens with prominent platforms, and should use those platforms responsibly. Corporations should not act as political or social commentators, releasing a flurry of public statements about the issues of the day. But at the same time, they should exercise public leadership about issues that affect them directly.

In the current moment, when America's system of democratic capitalism is weakening, corporations should make clear their concerns. The following are all threats to long-term prosperity, and threats to the ability of private businesses to contribute fully to the health of society by efficiently providing the goods and services the American people want to consume: Deterioration of the rule of law and due process rights, active use of industrial policy, massive tax increases without the input of Congress, an increase in cronyism and corruption, the government taking ownership stakes in private companies, corporate shakedowns, and a central bank that is no longer independent of politics. Business leaders should speak up about each issue.

More broadly, large corporations should support a healthy system of democratic capitalism. Across countries, free-market capitalism and liberal democracy are highly correlated, with countries exhibiting strength in one also demonstrating strength in the other. Given this, it is prudent to consider threats to liberal democracy as threats to long-term prosperity, and to consider threats to capitalism as likely to weaken political outcomes, and not just economic outcomes.

There are many reasons the two go hand in hand. Democratic polities naturally want to maintain institutions that allow free markets to generate long-term prosperity. Democracy relies on the ability of markets to generate employment opportunities and rising living standards to strengthen its legitimacy. Capitalism is best able to generate wealth in an environment of political and social stability.

Societies that value freedom typically value it across domains, including politics and economics. Businesses, which shoulder such a large responsibility for delivering the economic prosperity on which support for liberal democracy rests, should exercise public leadership with the goal of strengthening democratic capitalism. It is in their direct material interest to do so—and in all of our interest, as well.

Michael R. Strain holds the Paul F. Oreffice Chair in Political Economy at the American Enterprise Institute and is Professor of the Practice of Public Policy in the McCourt School of Public Policy at Georgetown University.

Suggested Readings

Barton, Dominic, Horvath, Dezso, and Kipping, Matthias (editors). *Re-Imagining Capitalism: Building a Responsible Long-Term Model.* Oxford University Press, 2016.

Bower, Joseph L., Leonard, Herman B., and Paine, Lynn S. *Capitalism at Risk: How Business Can Lead.* Harvard Business Review Press, 2020.

Carter, Stephen L. *Civility: Manners, Morals, and the Etiquette of Democracy.* Basic Books, 1998.

Dalio, Ray. *How Countries Go Broke: The Big Cycle.* Avid Reader Press, 2025.

Drucker, Peter F. *Peter F. Drucker on Business & Society.* Harvard Business School Press, 2020.

Fulcher, James. Capitalism: *A Very Short Introduction.* Oxford University Press, 2015.

Gramm, Phil, and Boudreaux, Donald J. *The Triumph of Economic Freedom: Debunking the Seven Great Myths of American Capitalism.* Roman & Littlefield, 2025.

Harvard Business Review (editor). *HBR's 10 Must Reads on Boards.* Harvard Business Review Press, 2020.

Levy, Jonathan. *Ages of American Capitalism: A History of the United States.* Random House, 2022.

Liu, Glory. *Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism.* Princeton University Press, 2022.

Roberts, Russ. *How Adam Smith Can Change Your Life: An Unexpected Guide to Human Nature and Happiness.* Portfolio/Penguin, 2014.

Addendum | Adam Smith Reconsidered

"[Adam] Smith had one overwhelmingly important triumph: he put into the center of economics the systematic analysis of the behavior of individuals pursuing their self-interest under conditions of competition. […] *The Wealth of Nations* is a stupendous palace erected upon the granite of self-interest."

George Stigler, The University of Chicago[25]

"[Adam Smith] was not aiming to be the great champion of the profit-based market mechanism, nor was he arguing against the importance of economic institutions other than the markets. Smith was convinced of the necessity of a well-functioning market economy, but not of its sufficiency."

Amartya Sen, Harvard University[26]

"The Chicago School's Smith relied on a conceptualization of free markets as not only freedom-enhancing but also scientifically and objectively validated; but leaning into the outsized role of self-interest and the invisible hand deliberately minimized the importance of other forces and institutions beyond the market—forces and institutions which Smith himself discussed at length in *The Theory of Moral Sentiments and The Lectures on Jurisprudence*."

Glory Liu, Georgetown University[27]

"The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order or society."

Adam Smith[28]

[25] From Stigler's papers "Smith's Travels on the Ship of State", *History of Political Economy,* 1971, and "The Successes and Failures of Professor Smith", University of Chicago, 1976.

[26] From Sen's Introduction to the Penguin Classics 250th Anniversary Edition of *The Theory of Moral Sentiments* published in 2009, p. xiii.

[27] Liu, Glory M. *Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism.* Princeton University Press. p. 39.

[28] Smith, Adam. *The Theory of Moral Sentiments,* Penguin Classics, 2009, p. 206.

INTRODUCTION

Adam Smith is often cited as the world's first economist, and perhaps he was—but he was also much more. In reality, Smith defies current-day definitions both in his academic work and in his views on commercial society. Most who cite his work represent only a partial view of his thinking. He is best known for *The Wealth of Nations* (1776), but he would advise readers to study his *Theory of Moral Sentiments* (1759) before considering his ideas about organizing a market economy.

The objective of this essay is to introduce the reader to Adam Smith: who he was, how his writings have been interpreted, and why a better understanding of Smith's writings might help leaders from all sectors today.

A BRIEF BIOGRAPHY[29]

Adam Smith was born in 1723 in Kirkcaldy, Scotland, just north of Edinburgh across the Firth of Forth inlet. His father died before he was born, and his mother never remarried. Kirkcaldy was a port town, and though there's little information about Smith's childhood, he would have been familiar with ships and trade from a young age.

He left home to study at the University of Glasgow in 1737, and it was there he found his favorite teacher and mentor, Francis Hutchison, a professor of moral philosophy. In 1740, Smith was awarded a scholarship to Oxford. Though he was critical of the venerable institution's teaching, he studied politics and history there until 1746, and it's likely that it was in Oxford he discovered David Hume's *Treatise of Human Nature.* (Hume would later become Smith's closest friend.)

Smith returned to Kirkcaldy in 1746 then moved to Edinburgh in 1748 where he was commissioned to give a series of public lectures on rhetoric, law, and philosophy. The lectures were very well received, and in 1751, he was appointed Professor of Logic and Metaphysics at the University of Glasgow. A year later, he switched to be Professor of Moral Philosophy, a position he would hold until 1764. During his time at Glasgow, Smith published the first edition of his *Theory of Moral Sentiments* (1759); he would revise the book five times, with the sixth edition published just months before his death in 1790.

In 1764, Smith was lured away from his professorial life by the opportunity to tutor the young Duke of Buccleuch, which paid substantially more than teaching. It also afforded him the opportunity to travel as the Duke decided to tour Europe, staying in Toulouse, Geneva, and Paris. Smith met Voltaire in Geneva and invested time with other leading Enlightenment thinkers in Paris, including economists Anne-Robert-Jacques Turgot and Françoise Quesnay.

Smith returned to Kirkcaldy in 1766, pension in hand (300 pounds annually) and used the time to begin writing *The Wealth of Nations.* He published this second book ten years later in 1776, before he and his mother moved to Edinburgh in 1777. Smith moved to Edinburgh to take on a new appointment as customs commissioner, a job that took substantial time away from his writing but provided hands-on experience that he would factor into future editions of his two books. He is believed to have been working on two additional works, one focused on the philosophical history of the arts, and the second on jurisprudence. He did not finish or publish either book, and his will required the executors of his estate to destroy all unfinished manuscripts.

Smith's early biographer, Dugald Stewart, paints a picture of him as "…an introverted, self-contained man, given to

[29] Most of this condensed biography is based on facts recounted in Christopher J. Berry's *Adam Smith: A Very Short Introduction,* Oxford University Press, 2018; other details sourced from the Panmure House's website, https://www.panmurehouse.org.

absent-mindedness and taciturnity in public."[30] Though socially awkward, Smith kept a close circle of friends, whom he hosted for meals and wide-ranging discussions at Panmure House. He also met with prominent visitors from out-of-town, including Benjamin Franklin. We also know that Smith's works influenced America's founders and leaders; Thomas Jefferson included copies of Smith's books in his sale of books to Congress in 1815.

Adam Smith died on July 17, 1790, and was buried just off Edinburgh's Royal Mile in the Canongate Kirkyard.

THE ADAM SMITH PROBLEM

If you are familiar with Adam Smith, it's likely that you heard his name mentioned in an economics class; he's the one who invented the idea of the "invisible hand" (i.e., self-regulating market forces that work behind the scenes leading to efficient resource allocation). In *The Wealth of Nations,* Smith identified self-interest as the key ingredient that motivates a person to produce and/or provide labor in exchange for the ability to consume and pursue a better life.

The Wealth of Nations contains Smith's perhaps most famous quote: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves, not to their humanity but to their self-love."[31] Taken to the extreme, one might think Adam Smith would applaud Gordon Gecko's "greed is good" speech in Oliver Stone's 1987 movie *Wall Street.* To the contrary, Smith would have seen Mr. Gecko's thesis as a misrepresentation of his thinking.

In 1976 at the University of Glasgow, George Stigler, founder of what is called "The Chicago School of Economics,"[32] mentioned Smith in a speech commemorating the bicentennial of *The Wealth of Nations* publication—assuring the audience that "…Adam Smith is alive and well and living at the University of Chicago". In reply, an audience member shouted, "And how is the prisoner?!"[33] In fairness, Adam Smith did extol the virtues of what he called commercial society, but to more fully understand his perspective, one must step back and understand his broader project.

Smith is best known for *The Wealth of Nations,* but 17 years earlier, he published his first book *The Theory of Moral Sentiments.* Observers often put the books in two distinct categories: the first book is about sympathy and ethics; the second book is about economics—claiming that there's no reason to try to draw connections. Others insist that the books are contradictory, so much so that a group of German scholars created the term "Das Adam Smith problem" to highlight the dissonance. To be fair, the "butcher, brewer, baker" quote seems to oppose, at least on the surface, the opening lines of *Moral Sentiments:*

> "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it."[34]

ATTEMPTING TO RESOLVE THE PARADOX

So which is it: self-interest or sympathy? The answer is both. Offering a comprehensive explanation of these seemingly opposing motivations is beyond the scope of this essay, but the following observations are good starting points.

[30] Berry, Christopher J. *Adam Smith: A Very Short Introduction.* Oxford University Press, 2018, p. 6.

[31] Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations.* Alfred A. Knopf, Everyman's Library edition, 1991, p. 13.

[32] The Chicago School of Economics is a broad term for the market-oriented economic theories popularized by scholars at the University of Chicago beginning in the mid-20th century. The Chicago School emphasized the importance of free markets in efficiently allocating resources, cautioned against government regulation, and favored the control of money supply over the use of fiscal policy in solving fiscal crises.

[33] Heriot-Watt University Professor Robbie Mochrie recounted this story during his interview for the forthcoming Adam Smith documentary film, produced by The Denny Center, Panmure House, and Windrider Productions.

[34] Smith, Adam, and Ryan Patrick Hanley. *The Theory of Moral Sentiments.* 250th anniversary ed. Penguin Books, 2009, Section I, Chapter 1, p. 1.

Human behavior is complex, and Smith is comfortable holding rival aspects in tension. Smith was a keen observer, and he described the complexities of human nature as he saw them. As one scholar put it, he followed the evidence. Self-interest and sympathy for others were both present in human experience, and each played an important role in framing society. Smith's impartial spectator[35] enables us to better sympathize with others and reminds each of us that we have more in common than not.

The objective of Smith's work was to promote human flourishing. As with many of his Enlightenment-era thinkers and peers, Smith's scholarship is aimed at bettering the human condition. In that spirit, he persisted in describing individual and collective traits that make living together in community possible. Self-interest comes naturally to human beings, starting with the need for food and shelter, and Smith's key insight that pursuing our self-interest can benefit society overall is monumental. But it's important to distinguish between self-interest and selfishness: the human need to look out for oneself does not assume disdain for others.

Smith's observations were influenced by place and time. Smith's writings were anchored in a specific place and time, and ongoing political and industrial activity played a significant role in his writings. Much of *The Wealth of Nations* is intended to persuade politicians of the time that they were thinking the wrong way about national wealth, mercantilism that enriched the powerful few—and the idea that trade surpluses were a must-have. To the contrary, the self-regulating nature of Smith's idea of a commercial society would produce a good deal more national wealth than government-driven monopolies like the East India Trading Company.

SMITH'S ADVICE FOR US TODAY

It's hard to say for certain what Smith might say to us today, but it's a good bet that he might offer the following pieces of advice:

Make the pie bigger. In 2020, London Business School Professor Alex Edmans published *Grow the Pie* that encouraged leaders across the spectrum to adopt a "pie-growing" mentality versus a "pie-splitting" mindset (by "pie", he means the social value[36] created by companies). Though Edmans is not a fan of income inequality, he provides evidence that when leaders prioritize making the pie bigger, they almost always make everyone better off. Smith would agree, and even though he admitted there would be downsides to his division of labor advocacy, he still promoted the idea that growing national wealth overall should benefit everyone (even if to unequal degrees).

Foster market competition. A critic of monopolies and business collusion, Smith would encourage us to protect and promote healthy market competition. He believed competition not only kept prices and profits in check but that it also drove innovation and operational efficiency. Just as he questioned government-sponsored trading companies, he would quiz us about why anti-trust activity has decreased over time. He might also push us to think about market concentration in new ways given the advent of big tech and the small number of large players in the attention economy.

Strengthen supporting institutions. Smith had a lot to say about markets and businesses, but he also stressed the importance of government and other supporting institutions. Though he believed government should be limited in scope, he was an advocate for a strong government that could enforce laws and property

[35] To Smith, we develop a sense of how others see us and how we behave, and that sense acts as an impartial spectator (a judge of sorts), either approving or disapproving of how we live our lives.

[36] Edmans defines social value as value created for investors and all other stakeholders (employees, customers, suppliers, communities).

rights, provide a national defense, and maintain public infrastructure. Smith also emphasized the need for education to form productive and moral citizens, which requires good schools, universities, churches, and other cultural institutions. To that end, he would be saddened by our declining trust in non-business institutions and would encourage us to work to repair them.

Imagine life from someone else's perspective. One of Smith's central ideas in *The Theory of Moral Sentiments* was what he called the 'impartial spectator.' By impartial spectator, he meant how an objective party might view our behavior or the behavior of others. This mode of self-reflection should shape our conscience internally and improve our conduct toward others externally. Smith would emphasize the continuing importance of thinking about life from someone else's perspective, and he would remind us that we have more in common than we realize, even across the deep political and cultural divisions that exist today.

CONCLUSION

Smith's legacy is a reminder that building and maintaining healthy societies requires a combination of self-interest, individual motivation, sympathy toward others, and strong institutions. It's vital to increase national wealth via free markets and competition, but we can't lose sight of the moral foundations that govern individual behavior and community building. Glory Liu, in her book *Adam Smith's America,* provides an excellent summary about why Adam Smith is still relevant today:

> "Who was Adam Smith? Adam Smith is a thinker who has been compartmentalized countless times, yet manages to escape each time. Who he was in the minds of his past readers has shaped who he is to us today. As scholars before me have argued, the history of reading Smith is a history of unhistorical readings, selective interpretations, even political appropriations. It is a history riddled with foreshortening, attenuating, and misreading, yet it is also a history that proves why Smith's ideas were—and are—worth reading, contemplating, defending, and criticizing."[37]

Despite the complexities and alleged contradictions in Smith's writings, society stands to benefit from a better understanding of his ideas about human nature and commercial society when attempting to resolve the inevitable tradeoffs that accompany the stewardship of democratic capitalism in 2025 and beyond.

[37] Liu, Glory M. *Adam Smith's America: How a Scottish Philosopher Became an Icon of American Capitalism.* Princeton University Press, 2022, p. 374.

The DENNY CENTER for
Democratic Capitalism
GEORGETOWN LAW

The Denny Center for Democratic Capitalism at Georgetown Law
600 New Jersey Avenue N.W. | Washington, D.C. 20001
dennycenter@georgetown.edu | 202-662-9366
www.law.georgetown.edu/denny-center