Business Needs a Safety Net

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DAVID KIRON AND GREGORY UNRUH

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It is standard fare for large companies to talk about their contributions to society, but 2017 has provided new evidence that businesses may need to rethink their purpose in society. In just one month — September — the southern United States and Mexico were hit by three Category 4-plus hurricanes and at least two major earthquakes that devastated entire communities. Over 400 people died in two powerful quakes occurring 11 days apart in Mexico, while Puerto Rico faced the prospect of being without power and clean water for months in the aftermath of Hurricanes Irma and Maria (even as the U.S. was cleaning up after Hurricane Harvey, which hit Houston less than a week before Irma struck).

The following month, three more major events hit: Wildfires in California yielded a predicted $85 billion in losses, while Spain and Portugal similarly saw devastating blazes. Hurricane Ophelia left three Ireland residents dead, with hundreds of thousands lacking power.

As these catastrophic events increase in the coming years, business and government will need to work together — more than they have — to ensure that markets and communities are as resilient as possible.

Gray-haired execs might recoil at this thought, pointing to Milton Friedman's oft-repeated claim that the one and only social responsibility of companies “is to increase profits.” But these managers ignore Friedman’s less well-known caveat, “so long as [the company] stays within the rules of the game.” As Friedman remarked in Capitalism and Freedom.
Government is essential both as a forum for determining the “rules of the game” and as an umpire to interpret and enforce the rules decided on. What the market does is to reduce greatly the range of issues that must be decided through political means, and thereby to minimize the extent to which government need participate directly in the game.

This strong distinction between rule makers and game players is difficult to maintain when a changing natural environment becomes a destructive economic force that regularly puts populations of broken people on broken streets. Uninsured costs from these events are skyrocketing, placing a growing burden on households (less than 20% and 18% of households in Texas and Florida, respectively, had flood insurance when Hurricanes Irma and Harvey hit) and on local and federal governments to help people get back on their feet. The U.S. economy lost 33,000 jobs in September, a drop that many attributed to recent weather-related events.

The idea that government’s central role in market activity is to determine, interpret, and enforce rules ignores a glaring truth. Government ensures the existence of markets in the first place, as well as the social infrastructures that allow markets to thrive.

It was the U.S. government’s investment in road networks that enabled the rise of the automotive industry, which accounts for one-sixth of the country’s economy today. Its investment in a satellite system enabled the emergence of Google. The Bayh-Dole Act of 1980 enabled many companies to develop and exploit patents, based in part on government-funded research, for private commercial ends. The list of companies whose success owes a debt to government is long. As linguist George Lakoff remarks:

The moral missions of government include the protection and empowerment of citizens. Protection includes health care, social security, safe food, consumer protection, environmental protection, job protection, etc. Empowerment is what makes a decent life possible — roads and infrastructure, communication and energy systems, education, etc. No business can function without them. This has not been discussed adequately. Government serving those moral missions is what makes freedom, fairness, and prosperity possible.
As the effects of climate change become more prominent in daily life and in the economy more broadly, business needs to grapple with its own attitudes toward government as an enabler of, rather than a constraint on, their respective corporate purposes. Government has, and will continue to have, an important role in ensuring that markets are resilient. Business needs a strong and effective government to provide a safety net for markets.

**Ecological Events Increase the Costs of Maintaining Markets**

Many indicators point to the looming effects of a changing natural environment on the economy. The reinsurance industry has been tracking naturally occurring events that cause large economic losses — including hurricanes, earthquakes, floods, and droughts — for the past four decades. The rate and intensity of these events have increased over this period, driven in part by increases in the economic value that exists in a given location but also from the violent character of the events themselves.

**Natural Loss Events Worldwide, 1980-2016**

As the incidence of economic loss events has multiplied, so too have insured losses. But uninsured losses have increased faster. Indeed, annual global uninsured losses from these events have soared beyond the $150 billion mark. In the United States today, uninsured losses from natural catastrophes may reach $100 billion, a number that is sure to grow in the coming years.

In Mumbai, researchers surveyed businesses and individuals following a severe weather event in an effort to understand the impact of catastrophic loss events on the uninsured and concluded:

"Our results indicate that the uninsured private losses suffered by individuals and small businesses..."
significantly exceed the damage to public infrastructure. In the absence of insurance or government assistance, these costs represent ... significant out-of-pocket expenses for the households and businesses. These findings have significant policy implications in terms of highlighting the vulnerability of the informal sector to extreme weather events in cities of the developing world.

The problem is just as relevant for developed countries, like the United States or Switzerland. Karin Reiter, former corporate responsibility manager at Switzerland-based Zurich Insurance Group AG (2016 revenues $67.25 billion), points out that “a prosperous business depends on a prosperous community. You need people that are able to buy your goods and procure your services. You need to have access to skilled local talent. So you want to make sure that the communities continue on their development path.”

**Reimagining Business’s Purpose**

At CECP’s Strategic Investor Initiative summit in New York City, CEOs from several Fortune 1000 companies (Allstate Corp., Aetna, Prudential, Delphi Automotive, and Telia) discussed their company’s long-term objectives, specifically in the context of their company’s overall purpose. Most telling was the extent to which this group of executives connected their corporate purpose to stabilizing the market environments in which they operate — from improving trust in corporations to improving healthy behavior among consumers to improving their effect on the environment.

Aetna’s CEO, Mark Bertolini, for example, spoke passionately about what his company was doing to address the opioid epidemic. His presentation coincided with market uncertainty over the fate of the Cassidy-Graham health care reform bill in the U.S. Senate, which was deciding whether to vote on it. During his talk, he pulled out his phone to note that his company had dropped several points per share that day, representing hundreds of millions of dollars in market cap. Government uncertainty about supporting the safety net was bad for his business. Clearly, aligning business and government is no easy task.

The conference pointed to a giant gap in most of these companies’ long-term plans. Despite the obvious connections, working with governments to build resilient markets in a natural environment that doles out increasing levels of damage made no appearance on the long-term agenda of these companies. This is a blind spot among even the more progressive companies on sustainability issues.

Companies face a choice when considering their long-term contributions to society, their overall purpose: They can either work directly with governments and other organizations to plan for responses to natural loss events or do nothing and let the government reestablish market conditions however (or if) it chooses. Whatever is
chosen, what’s clear is that a more destructive physical environment recommends a more nuanced business relationship with government, specifically as a partner in enabling and supporting markets rather than as a regulator that needs to be managed. The future of demand may depend on what path business decides to take.

*An adapted version of this article appears in the Spring 2018 print edition.*
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