COMPANIES & MARKETS

Buffett parts company with the moralisers

FT Series Capitalism's kindly grandpa is not among those paying lip service to emerging notions of social responsibility

ROBERT ARMSTRONG

Berkshire Hathaway has poured about $30bn into wind turbines and infrastructure in Iowa through one of the many businesses it owns.

The goal is to turn the state into "the wind capital of the world, the Saudi Arabia of wind".

Another kind of capitalist would go on to say that moving from fossil fuel to renewable energy reflected the responsibility of his companies to society, a matter of "doing well by doing good". Such is the current consensus, expressed — sincerely or not — in annual reports and advertisements by companies.

But Berkshire's Warren Buffett was having none of it. He was investing in wind only because the government paid him to do so.

"We wouldn't do [it] without the production tax credit we get," he said.

He went further. It was wrong, he said earlier this year, for companies to

> Many managers 'embrace enthusiastically their own allocation of the shareholder's dollar'

impose their views of "doing good" on society. What made them think they knew better?

"It's very hard to do. If you give me the 20 largest companies, I don't know which of the 20 behaves the best, really.

"I've been a director of 20 publicly owned [companies] and I think it's very hard to evaluate what they're doing . . . It's very, very hard. I like to eat candy. Is candy good for me or not? I don't know."

Even if Berkshire's management did know what was right for the world, it would be wrong to invest on that basis because they were just the agents for the company's shareholders.

"This is the shareholders' money," he said.

At Berkshire, charitable contributions are ruled out on principle.

"Many corporate managers deplore governmental allocation of the taxpayer's dollar, but embrace enthusiastically their own allocation of the shareholder's dollar," he said.

Mr Buffett's expressed view of the company makes him exceptional.

Milton Friedman, the University of Chicago economist, wrote 50 years ago that "the social responsibility of business is to increase its profits".

Until recently, that view was gospel, from business schools to boardrooms.

After his success in creating immense wealth for Berkshire Hathaway, Mr Buffett's greatest achievement may be the creation of an unassailable public image as capitalism's kindly grandpa. This gives him room to say what others dare only think.

But Mr Buffett is not alone.

Robert Shillman, chairman of industrial sensor company Cognex, used the company's last annual report to "express my concern over this trend of bashing both our free enterprise system and our businesses".

He took issue with "oversight over corporations . . . in particular regarding environmental, social, and governance issues".

While the government had not yet succeeded in imposing oversight over companies' ESG activities, "unfortunately, that is not the case for large, institutional fund managers". Asset managers, he argued, were out of line in using their proxy voting power, lent them by investors in mutual funds, to "pressure 'their' companies to include ESG factors when making business decisions".

He said: "If they asked [the fund investors], 'Do you want the board of directors and the managers of your companies to spend time and energy on ESG issues or do you want them to spend all of their time and energy on increasing the value of your shares?', I'm rather sure that an overwhelming number of them would choose the latter."

The runaway growth of ESG-driven investment funds suggests that Mr Shillman may be wrong. But advocates for "stakeholder" capitalism, which considers the interests of other groups such as employees and the community, would also argue that his question presupposes a false choice, because if capitalism does not do more to bring about a better society, companies' licence to operate may be revoked.

As Alan Schwartz, chairman of the investment bank Guggenheim Partners, put it earlier this year, "throughout centuries, what we've seen when the masses think the elites have too much, one of two things happens: legislation to redistribute the wealth . . . or revolution to redistribute poverty."

But even among those who agree that capitalism has become dangerously unstable, not all agree that the fundamental problem is myopic focus on shareholder returns.

Paul Singer, who runs the activist hedge fund Elliott Management, takes the opposite view. It is the self-serving behaviour of boards and management, abetted by bad government policy, that has created the sense that capitalism is a rigged game.

According to Mr Singer, corporate capitalism was a system in which investors owned corporations, investors appointed a board to set corporate strategy and the board hired a management team to execute the strategy.

The current reality, said Mr Singer at a conference in 2017, was that management picked the board and chose a strategy for its own benefit. Investors were secondary. "What's come to pass in American capitalism is . . . a tremendous amount of stultification," he said.

The paradigmatic example, he said, were the risk-hungry managements and weak boards at the big banks that caused the financial crisis.

The response to the crisis, loose monetary policy, only increased dissatisfaction with capitalism by driving up asset prices without helping most citizens.

"The financial sector [and] asset owners are doing fantastically, and the middle class is under tremendous pressure, and that is part of the populist edginess which is . . . calling into question the broad acceptance of economic freedom."

What was needed was a purer and harder version of shareholder capitalism, not a softening of it.

Mr Buffett has a simpler vision for making a better society. He thinks it is government policy, not capitalism, that

> 'If people want us to junk coal plants . . . there's a cost to somebody. The question is how it is absorbed'

must drive change. He cited Berkshire's remaining coal power plants.

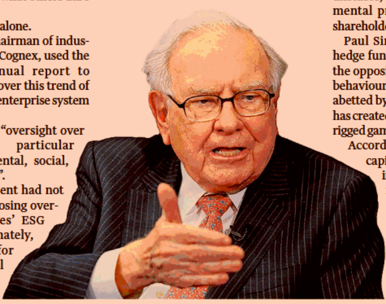
"If people want us to junk our coal plants, either our shareholders or the consumer is going to pay for it.

"You can argue that unfortunately the consumer pays for it, but then the trouble is they pay for it if they happen to live in the place where a utility has 50 per cent [of their energy] coming from coal. If they happen to be in some other territory, they don't pay for it.

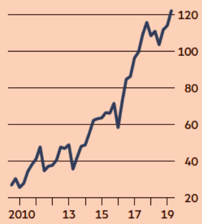
"So there's a cost to somebody . . . The question is how it gets absorbed. But overwhelmingly that has to be a governmental activity."

The government, declared perhaps the greatest living capitalist, "has to play the part of modifying a market system."

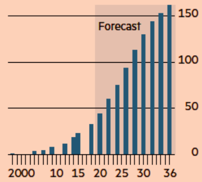
Part of a wind farm managed by MidAmerican Energy, a subsidiary of Berkshire Hathaway, in Marshalltown, Iowa. Warren Buffett, below, is investing in wind only because the government pays him to do so — Timothy Fadek/Bloomberg



Berkshire's pile
Cash and cash equivalent ($bn)



Investors set to pour trillions more into ESG funds
Global assets with an ESG mandate ($tn)



Based on available data
Sources: Bloomberg; Deutsche Bank; Global Sustainable Investment Alliance

FT Series
The year in which parts of the corporate world signalled that values were to be placed above raw profit
ft.com/responsiblecapitalists

Technology

Panasonic says plant labour shortage resolved

KANA INAGAKI — TOKYO

Panasonic says it has resolved a labour shortage that has hampered production efficiency at the "gigafactory" in Nevada, its joint-venture electric battery plant with Tesla.

The company made a $1.6bn investment in the $5bn plant to become the exclusive supplier of lithium-ion electric battery cells for Tesla's Model 3 car.

But the gigafactory has struggled to raise its production yields since it launched in 2017. Originally designed to be able to produce the equivalent of 54 gigawatt hours a year, it is only now said Allan Swan, the head of Panasonic's US battery manufacturing unit.

To build its team, Panasonic recruited chemical engineers from non-battery sectors and trained them to handle lithium-ion batteries. Now it has 3,000 people who operate the machinery and about 200 technical assistants from Japan to keep the plant running 24 hours a day, 365 days a year.

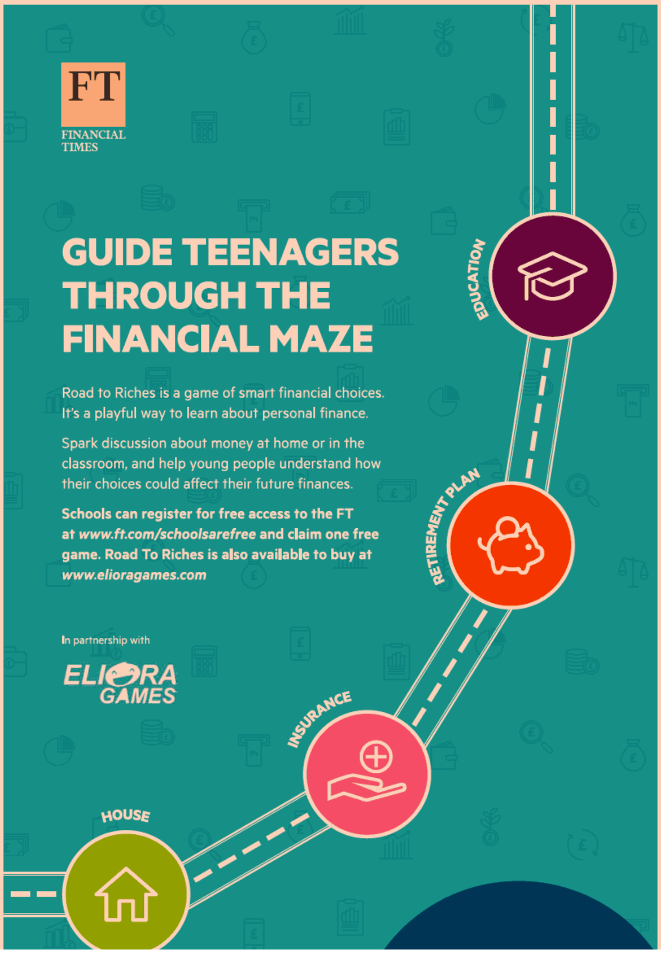
"For us to move to [54GWh] should not be so hard. We now have the know-how to do it in quite a high volume environment," said Mr Swan.

Securing engineers is a critical step as Tesla plans to use batteries produced at executive Elon Musk to blame his Japanese partner for constraining Model 3 production in April.

But whether the Japanese company, whose $1.6bn commitment only covers capacity to 35GWh, will make an additional investment is far from certain.

In November, Kazuhiro Tsuga, chief executive, said Panasonic's focus was in reaching the 35GWh target and that it had no plans to build a new battery plant for Tesla in China, even despite the US company's deepening relationship with local battery producers.

Part of the frustration for Panasonic has been the mismatch between sales of



gigawatt hours a year, it is only now finally nearing 30GWh.

Panasonic said it has faced an industry-wide shortage of battery engineers after a construction boom in lithium-ion battery megafactories to address the shift towards electric vehicles.

"Even today, demand is far outstripping supply when it comes to chemical engineers with lithium-ion experience,"

Tesla plans to use batteries produced at the US gigafactory for its Model Y sport utility vehicle when it launches next summer, according to people with knowledge of the plan.

Panasonic declined to comment on battery plans for Model Y. Tesla could not be reached for comment.

The skills gap in engineers was one of many problems that led Tesla chief

has been the mismatch between sales of Tesla electric vehicles and Mr Musk's aggressive plans to build new plants in China and Germany, according to people close to the Japanese group.

Mr Swan played down perceived tensions between the two companies. "Our whole job is to make sure that Tesla wins," Mr Swan said. "If Tesla wins, Panasonic wins."