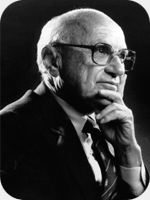
# Is It all about the Money? Friedman on Corporate Social Responsibility

In a famous 1970 called “The Social Responsibility of Business is to Increase its Profits,” the Nobel-Prize-winning economist **Milton Friedman** argued that publicly owned corporations (that is, the sort of companies that sell shares in their stock to the public, such as Google, Microsoft, Apple, Facebook, Amazon, Walmart, etc.) have a duty to their shareholders to try and maximize profit, even when this comes at the expense of other social goods. While this theory of **shareholder (or “stockholder”) primacy** does not entail that businesses can do whatever they want (among other things, they should obey the law), it explicitly forbids businesses from trying to “help” their employees, customers, or communities in any case where this conflicts with maximizing profits. The major competitor to this view, commonly called **stakeholder theory,** holds that businesses have a moral duty to take account of the interests of their *stakeholders,* or the people affected by their decisions. These stakeholders include not only the shareholders, but also employees, customers, suppliers, competitors, and even society as a whole.

So, for example, Friedman would argue that companies like Amazon or Facebook should focus on *long-term returns* to the people who own their stock, whether this is in the form of “dividends” paid to them directly, or an increase in the value of the stocks they own. By contrast, stakeholder accounts hold that these companies should ALSO consider the well-being of their employees and customers, as well as the larger social impact of their actions. Here, we’ll be looking at Friedman’s arguments for his view.

## Friedman on the Social Responsibility of Business

Figure 1 Milton Friedman (from cato.org).

"There is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." (M. Friedman, *Capitalism and Freedom*)

**What’s the Problem?** When Friedman wrote his essay in 1970, there was growing pressure on businesses to act in socially responsible ways. Among other things, this included pressures to do things like:

1. hire more women and minorities, who formed only a small percentage of the workforce, and who faced significant levels of discrimination;
2. refraining from doing business with dictatorships, being more accommodating to labor unions, and generally taking more account of their employees’ well-being (wages, safety, sick leave, and so on);
3. avoiding pollution, which harmed humans, plants, and animals, and
4. making better efforts to ensure the safety and quality of the products they sold to consumers (e.g., the cigarette companies deceptive advertising practices, and their efforts to attack the scientific link between smoking and cancer).

Alongside these specific concerns, there was the more general idea that large businesses should “give back” to their communities, in the way that the smaller, locally owned businesses of the past had often done. While the specific issues in question have changed, many contemporary businesses face analogous pressures and problems. Friedman argues that businesses should NOT succumb to the pressure to “do the right thing,” and instead should focus solely on maximizing their profits. The major points of his argument are as follows:

**Claim 1: Corporations can’t have moral responsibilities; only their employees can.** A corporation, on Friedman’s view, is merely a *collection* of individuals. While corporations are “legal persons” in a certain, limited sense (they can “own” things, for example), they cannot be morally “praised” or “blamed” for anything. With this in mind, he claims that the *real* question is what the moral obligations of the corporation’s employees (especially the C-level executives like CEOs, COOs, CIOS, and CFOs).

**Claim 2: While at work, employees are morally obligated to serve the shareholders’ interests.** Friedman grants that employees (may) have moral obligations to other people when they are *not* working. However, he argues that, while they are at work, they are **agents,** and their shareholders (or owners, since Friedman doesn’t carefully differentiate between these) are the **principals.** This means that they use their time and resources in the shareholders’ interest, even if they disagree.

**Claim 3:** **Devoting corporate resources to causes other than profit is analogous to unjustified taxation.** When employees choose to spend time and money on causes *other* than maximizing profit, they are imposing a sort of “tax” on the shareholders’ of the company by reducing their future profits. Friedman argues that this is an unjustified tax, since it (a) wasn’t approved by legitimate political processes (e.g. majority vote) and (b) the employees’ imposing this tax have no special *expertise* on how to effectively “spend” the proceeds of the tax. Friedman’s basic idea: while business CEOs might care about women/minorities, they may lack the expertise to actually do anything to help them.

**Claim 4: It is morally wrong for shareholder majorities to engage in social activism, as well.** Friedman recognizes that, in many cases, many of the company’s major shareholders would actually *prefer* to pursue goals beyond profit. That is, they would be willing give up (some) profits in order to make sure their company treated workers well, didn’t pollute, etc. Friedman offers a (brief) argument that this is also immoral, since there will generally be a (minority) of shareholders who simply wanted to maximize profits, and this would amount a “tax” on these shareholders.

**Claim 5:** **Businesses that engage in do-good-ery harm society even when (a) all of the shareholders agree and (b) the business would actually benefit (indirectly) from doing this.** To close, Friedman grants that thinks it is morally *permissible* for closely held companies to pursue goals other than profit, and even recognizes that there may well be long-term benefits to doing so (e.g., the company benefits from an improved reputation). However, he thinks that society as a whole will suffer from this, since these companies make companies that *don’t* do these sorts of things look “bad,” and encourage the view that business *ought* to do these sorts of things. He argues this will (eventually) lead to democratic majorities voting for new laws that enforce these sorts of duties on *all* businesses. This will, in turn, result in reduced overall **efficiency,** which will harm everyone. There will be less competition and less innovation, products will cost more, wages and incomes will suffer, and so on.

## Problems With Friedman’s Argument

While the Friedman’s argument is very influential (as of early 2020, it’s been cited nearly 20,000 times), there are significant problems with nearly all of his premises.

**Yes, corporations can be held morally responsible for wrongdoing.** Friedman claims it doesn’t make sense to morally praise or blame corporations, but it’s not clear that this is true. For example, we can meaningfully talk of corporation having things like “beliefs,” “desires”, and “intentions” that are independent of any *particular* employee that works there. A corporation’s “belief” about the state of current markets, for example, is distributed across its various researchers, managers, boards, and so on. The same might be said about its “desires” and “intentions,” which can’t be identified with any particular executive, but are instead expressed by the outcomes of board votes, and so on. In any case, just because we can’t punish corporations in the same way we punish individuals (we can’t “throw them in jail”) doesn’t mean we can hold them accountable for their actions in some other way. This same point can be made with an analogy: we regularly hold *nations* responsible for past wrongdoing, as opposed to just the leaders. For example, Germany paid reparations to Israel years after the Nazi government fell; the U.S. government paid reparations to Japanese-American citizens who it unjustly imprisoned during World War 2.

**No, employees aren’t obligated to obey shareholder’s interests.** Friedman tends to identify shareholders with the firm’s “owners,” but this this isn’t a great analogy. In comparison to owners, shareholders have much more limited rights and control. Moreover, there’s no clear reason where shareholder interests should be prioritized over others with financial interests in the company (such as creditors and bondholders). Finally, and more importantly, morality places *limits* on what agents can do, even when their principals demand it. Soldiers shouldn’t commit war crimes, even when ordered to; parents shouldn’t cheat help their children cheat to get into a good school; and so on. By analogy, it seems plausible that managers should avoid mistreating employees or exploiting customers, even when it is possible they can “get away with it.” Friedman doesn’t have a great way of accounting for these duties.

**The analogy between social justice and unjustified taxation is weak.** Unjustified taxation bothers people, at least in large part, because they don’t have a *choice* (if you don’t pay your taxes, the police come and arrest you). This isn’t the case for shareholders, who are free to sell their shares. Friedman’s argument that managers lack the expertise necessary to pursue social goods effectively is somewhat better, but loses plausibility when pushed to the extreme. For example, suppose that a company in a male-dominated field (such as computer science or engineering) is interested in helping women achieve equality in the workplace. Is it really true that there absolutely *nothing* it could do—regarding hiring policies, mentoring programs for young women, outreach to college/high school students—to help achieve this goal? Friedman doesn’t offer any evidence for this (very strong) claim, and it seems fairly likely it is false. While it is probably true that government programs are (at least in some cases) preferable to the initiatives of individual businesses, the fact is that we don’t live in a perfect world.

**Activist shareholders aren’t morally obligated to vote in ways the minority would agree with.** Shareholders in a company don’t have a *moral duty* to vote in ways that everyone would agree with, or in the best interest of “the firm” as opposed to the individual’s interest. In fact, Friedman’s argument here seems to reverse the order of things: if anything, shareholders hold votes in order to allow the firm knowledge on to better reflect *their* interests. Again, minority shareholders (who simply want to maximize profits) are free to sell their shares if they don’t like the majority’s preferences for “socially responsible” businesses.

**Society (as a whole) may benefit from business’s going “above and beyond” the requirements of the law.** Friedman’s most interesting argument is plausibly his last one: that society *as a whole* benefits from a clear division of labor between business actors (which pursue profits) and political/private actors (which pursue a wide variety of ends, including those aimed at social justice). **Kenneth Arrow,** another Noble Prize Winner in economics, has challenged Friedman’s claim that efficiency is maximized by a system where each business pursues its own profit, to the exclusion of everything else. He notes that there are (well-recognized) cases where profit-seeking behaviors by individuals can harm society. These include **monopolistic** (or **“rent-seeking”**) behavior, where a firm exploits its market position to charge extraordinary prices, and cases of **informational asymmetry,** where buyers/sellers have large differences in information. Finally, there are cases where the behavior of firms imposes **negative externalities** on others (e.g., a polluter harms the community). Arrow notes that while (some) of these problems can be dealt with by regulation, taxation, and lawsuits, they can often be addressed (more efficiently) by creating a *culture* where these norms are expected to be followed. He gives the example of medicine: if medical professionals began behaving the way Friedman suggests that business executives ought to, this would have a catastrophic effect on patients’ confidence in them, and the health care market would suffer as a result. This shows the potential value of having professional “codes of ethics” that exceed the legal requirements.

## Review Questions

1. Suppose that you are working for a company that is interested in “giving back” to the community in some way. (Be sure to make up a company and a project). Use Friedman’s argument to show why your company should NOT do this. Do you think your argument here would work? Why?
2. Do you think that it makes sense to hold entities such as corporations or nations morally responsible for what they do? Why or why not? Defend your answer using the class material.
3. To what extent do you think Friedman’s argument succeeds against the criticisms presented here? How might he respond? Can you think of any *additional* criticisms that haven’t been mentioned so far?

## For Further Reading

* Arrow, Kenneth J. 1973. “Social Responsibility and Economic Efficiency.” *Public Policy* 21 (3): 303–17.
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* “The Origin Of ‘The World’s Dumbest Idea’: Milton Friedman.” 2013. *Forbes*. <http://www.forbes.com/sites/stevedenning/2013/06/26/the-origin-of-the-worlds-dumbest-idea-milton-friedman/>.