An Appropriate Ethical Model for Business and a Critique of Milton Friedman's Thesis

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In 1970, when interest in the ethics of business was increasing to a degree that would soon cause the emergence of a whole new discipline, a controversial essay on corporate responsibility, "The Social Responsibility of Business Is to Increase Its Profits," was published in the *New York Times Magazine*.[1] It was written by Milton Friedman, distinguished professor of economics at the University of Chicago and regular columnist for *Newsweek*. Based on part of a chapter of Friedman's 1962 book *Capitalism and Freedom*, the essay has been one of the most widely cited—and criticized—of all Friedman's popular writings.[2]

My goals for this article are to propose a free-market model of business ethics for firms of all sizes and types (by describing a past attempt to promote such a standard), to comment on the history of regulation and on the emergence and teachings of the discipline of "business ethics," and to argue that Friedman's perspective on corporate responsibility as outlined in 1970 and his subsequent position on corporate lobbying are counterproductive to the furtherance of such a free-market model among leaders of the business community.

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1. This essay has been reprinted in many collections. See Friedman 1972, 177–84. Henceforth, I cite page numbers from this reprint.

2. Author John Hood, who is clearly familiar with the literature, has commented: *"It is no exaggeration to say that, with very few exceptions, every major article on or analysis of corporate social responsibility since publication of Friedman's article has cited, mentioned, or challenged it"* (1998, 682, emphasis added).

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A New Ethical Standard

For five years, from 1979 to 1984, I was deeply involved in an effort to develop a new national business association through which it was hoped that a contingent of entrepreneurs and executives could be persuaded that their firms ought to refrain, to the maximum extent possible, from seeking to use government resources to achieve their objectives.[3]

Through publications and testimony, this organization worked to introduce, defend, and promote the following basic concept: *for a corporation or other business entity to commit itself to compete solely, or primarily, through a free and open market, relying thereby for its success on the voluntary choices of consumers, is an ethical "high road."* [4]

We believed that if we could convince even a modest number of prominent corporate leaders and associations to admit publicly that, whatever their practical constraints, they at least believed in and aspired to such a straight and narrow course, the public perception of economic competition and profits would begin to change and an appropriate standard by which to judge the social behavior of business enterprises would emerge. Public awareness of such a high road could not help but focus attention on those who seek privileges.

The organization began to promote its ethical model just as business-oriented journalists and editors were being confronted simultaneously by a new and presumably positive academic focus on business ethics and by a controversial and awkward political issue for business in the form of a massive bailout proposal for the Chrysler Corporation. In retrospect, how the media reconciled the two issues provides an interesting object lesson.

Our organization's view on the connection between ethics and the Chrysler proposal was simple and straightforward: a federal bailout of a private firm would be unethical. Regrettably, it was almost impossible to thrust that perspective into the public debate. Instead, the media, with help from new "philosophers of business," focused mainly on the "ethics" of saving jobs—the numbers exaggerated up to eight hundred thousand—and on the supposed "ethics" of the fact that Chrysler, merely because it was not as big as Ford and General Motors, "deserved" federal help (Weidenbaum 1986, 331).

That Chrysler was awarded $1.5 billion in federal loan guarantees did help to illustrate, along with other, similar initiatives, the acute differences between a policy that is pro-business and one that is pro-market. It also enabled us to stress that pub-

3. This organization, which I served as paid president and CEO from August 1979 to June 1984, was the Council for a Competitive Economy. Though kept nominally active for a period of months afterward by Citizens for a Sound Economy, then a new organization, the council has now been defunct for many years. Described as "a national membership organization of businesses and individuals," it had business members in all fifty states.

4. The organization's goals were phrased in several ways, but the most commonly used description was: "to promote an economy operated and structured by market, rather than political, forces. The Council stresses the justice of economic freedom, voluntary trade, private property and individual rights."

lic confusion about this point is largely a result of efforts by spokesmen for high-profile firms, such as Chrysler, to advocate and defend policies that have nothing to do with a market economy.

The basic notion—that it is ethical for businesses to uphold the free market and renounce the use of politics—seems elementary, yet it is virtually impossible to overstate the degree to which the point is lost on, if not altogether taboo for, those who sit in corporate boardrooms, no less today than in 1980. Even lip service is rarely paid to the idea.

To be sure, many have written about the ethics of consumer choice in the marketplace. For example, Murray Rothbard noted the following:

> Those who succeed on the free market, in economic life, will therefore be those most adept at production and at serving their fellowmen; those who succeed in the political struggle will be those most adept at employing coercion and winning favors from the wielders of coercion. . . . In sum, governmental subsidy systems promote inefficiency in production and efficiency in coercion and subservience, while penalizing efficiency in production and inefficiency in predation. Those people who ethically favor voluntary production can gauge which system—the free market or subsidies—scores the higher economic marks, while those who favor conquest and confiscation must at least reckon with the overall loss of production that their policy brings about. (1977, 171)

Because this ethic is grounded in the right of individuals to seek to satisfy their preferences through voluntary trade in the marketplace, it does not require the utilitarian ethic of "the greater good for the greater number." Yet, as our organization averred, the efficiencies of a competitive economy inure to the benefit of all classes of citizens, rich and poor. To interfere with allocation and pricing is by definition inefficient, hence costly to consumers.

The classic attack on this perspective, of course, is to raise the specter of monopoly and market power. Our position was clear. We advocated an economy both operated and structured by the forces of the free market—that is, one responsive to consumers rather than to politicians. Although some could accept the first part of this ideal as worth discussing, most choked on the second part. Even many economists and those executives and politicians influenced by them shook their heads at our "naïveté."

We constantly strived to discredit the widely accepted, mistaken, and confusing premise that small enterprises are ethically superior to large ones. Located on Capitol Hill and exposed to the wide spectrum of legislative and regulatory initiatives, we could see that the associations and coalitions of smaller businesses (especially farms) were, on average, no more committed to free and open competition than those who spoke on behalf of the associations, high-profile law firms, and executive suites of the largest transnational corporations.

Along the way, we also touted a more urgent imperative, summarized by F. A. Hayek in an informal talk he delivered in November 1983: “I very seriously regard the preservation of what is known as the capitalist system, of the system of free markets and the private ownership of the means of production, as an essential condition of the very survival of mankind. . . . To change from a system of private property in the means of production will very soon mean the end of civilization and the decay of the standard of all of us. So far as they survived, in the long run, only few would survive; but those who did survive would find themselves at the level ultimately very near that of the savage” (1983, 10).

Our final, and by no means least challenging, objective was to foster within the business community itself a greater understanding of and appreciation for economic freedom. Among our targets were the business media and the graduate schools of management, where views on policy have always been infuriatingly pragmatic. When it comes to subsidies and privilege for business, the schools consciously foster agnosticism. To inject a different perspective, we sponsored MBA student “chapters” at Harvard, Thunderbird, UCLA, and Wharton.

Needless to say, we were often frustrated on Capitol Hill when business lobbyists on the ethical side of an issue (usually by pure happenstance) would be unwilling even to acknowledge their support for an ethical position, let alone defend it. Attorneys in particular tend to shy away from arguments on any principle other than strictly legal ones, presumably out of a fear of being hoisted on a “market petard” in the future. A high-profile example was the defense of Microsoft.

We made absolutely no distinction between entrepreneurs who had sole or majority interest in their companies and hired executives who, in most cases, had little or no significant ownership interest in firms they managed. Many experts, including Friedman, argued that only those who managed firms of their own would be justified in or capable of taking a principled stand for competition. We strongly disagreed and claimed that there is no justification for such a convenient distinction.

What of Public Corporations?

For several reasons, we saw no compelling argument against a public company’s taking our high road. First, we always acknowledged “real-world” constraints—a point understood and made by prominent columnist, David Francis: “With some of the same fervor as a country preacher, Mr. Wilcke is ‘agin sin’—that is, against having business get such government favors as subsidies, bailouts, protective tariffs, restrictive regulations, special tax breaks, and so on. *He is forgiving. He does not expect corporate members of the organization to be without ‘economic sins.’ But they are expected to be desirous of reform, of wanting to see a less-regulated, freer business environment, with a shrunken role for the government*” (1980, emphasis added).

Admittedly, we were frequently critical of public statements and speeches by spokesmen for business, but our focus was never on those who merely went along with privileges, subsidies, and tariffs, but rather on those who undermined the case for freedom by rationalizing that such policies are consistent with the market or that competition is unworkable or unjust in a particular firm or industry. We exposed and ridiculed that sort of talk, which abounds.[5]

The second reason no concession was made to public corporations is that we knew of no historical evidence of cases where firms that had profited expressly because of special privileges or protection ever grew stronger or more competitive as a consequence. On the contrary, history seems to prove that protected firms inevitably grow more dependent and less competitive, as William Graham Sumner explained a century ago in discussing foreign trade: "The weakest (infant industries) today [1885] are those whom Alexander Hamilton set out to protect in 1791. As soon as the infants begin to get any strength (if they ever do get any) the protective system forces them to bear the burden of other infants, and so on forever. The system superinduces hydrocephalus on the infants, and instead of ever growing to maturity, the longer they live, the bigger babies they are. It is the system which makes them so, and on its own plan it can never rationally be expected to have any other effect" (1919, 80). We maintained that this effect was made manifest in regard not only to international trade but also to the entire litany of economic interventions. (Have not evolutionists always contended that organisms grow stronger in response to life's rigors?) Business managers and owners can be fooled into erroneous business judgments and malinvestments not only by monetary policies but also by interference with pricing, restrictions, and various incentives, all regarded as "pro-business."

Even Michael Porter, Harvard Business School management specialist, avowedly not a market ideologue, has written on the practical effect of subsidies: "Subsidy delays adjustment and innovation rather than promoting it. . . . Ongoing subsidies dull incentives and create an attitude of dependence. Government support makes it difficult to get industry to invest and take risk without it. Attention is focused on renewing subsidies rather than [on] creating true competitive advantage. One subsidized industry propagates its noncompetitiveness to others. Once started, subsidy is difficult to stop. What is worse, subsidies to one ailing industry encourage others to seek them" (1990, 640). Given the inevitable effect of interventions on individual firms and industries, investors with an interest in long-term survival, whether such owners of equity are family members in a private corporation or employees who put their trust in pension-fund managers, are best served over time by concentrating investments on, if not limiting them to, firms capable of flourishing in a competitive business environment under free-market conditions.

One securities-industry maxim is that what stockholders are after is rarely annual profits per se, but rather an increase in wealth, which, though usually a result of profits, is more properly defined as net worth or owner equity. Is the goal of the majority

5. One company president, a glass-products manufacturer from Ohio, informed me during a visit to his office that although he wasn't sure his firm agreed with us on everything, they considered it *"absolutely"* worth $250 a year, the minimum corporate dues at that time, just to read examples of hypocrisy in the business community.

of Americans with investments in Wall Street earnings or appreciation? Long-term value is created by companies able to compete in the market. The best course for an entrepreneur who wants his grandson to run his business forty years hence is to shun regulated industries and special privileges.

It is entirely plausible that, given time, a premium might be created for the shares of corporations committed to a high road. After all, when it was widely believed that corporations were helping to sustain apartheid in South Africa, many investors, including universities, were pressured into making decisions based on involvement of firms in that nation. Relative to South African commerce, a stock-market discount was created, and, in response, U.S. firms "disinvested" at least $5 to $10 billion between 1984 and 1989 (Hazlett 1993, 103).

It seems inevitable that a premium would evolve for shares in those public corporations whose managements were committed to competition, and likewise a discount would evolve for shares of other firms, such as Archer Daniels Midland or Motorola, whose executives were committed mostly to competition in the political arena. Shareholders fuss about nearly everything else. Why should they not also be concerned about the ethics of market freedom?[6]

A final appeal to all businesses—public or private, large or small—is that this system of private property and free markets, in which firms are free to compete for consumer patronage, is much more likely to endure politically if those who own and manage these firms and therefore have sufficient resources, are motivated to uphold it. As economist George Stigler said, "With or without the help of economists, however, it is surely businessmen who must bear the main burden of defending and extending the system of private enterprise" (1982, 14).

An Understanding of History

If it were true, as universally taught and widely believed for decades, that American business had always wanted free and open competition and that regulators, whenever appointed, had truly worked in the public interest to control the excesses of the marketplace and to protect the interests of consumers, the free-market ethical standard as described in this article would scarcely seem to be an ethical high road, but more a proverbial "briar-patch" escape.

Hence, a prerequisite to the advancement of a free-market ethic is a broader appreciation of the culpability of business in the expansion of intervention. One positive if long-term trend in that direction is that scholars working in the academic disciplines of economics, political science, and history have come increasingly to the conclusion, more or less independently of one another, that special interests (and

6. As an example, there are mutual funds now that limit investments to corporations that are "socially responsible."

overwhelming the wealthier interests—that is, business)[7] invested a great deal of money and energy over the past century to promote regulations.

Regrettably, this perspective is incomprehensible to most business ethicists. The reason, we suspect, is the same reason it was found puzzling twenty-five years ago to intellectuals, especially in Washington. The explanation is that it does not accord with the economic class analysis of Karl Marx, an opinion expressed by Roy Childs in a 1969 lecture:

> [T]he "class lines" in American history are different from what they were thought to be. Some of the men in larger businesses supported and even initiated acts of government regulation while others, particularly relatively smaller and more competent competitors, opposed such regulation. Thus we have a clear-cut case in American history that contradicts Marxian theory: the lines of battle and conflict were *not* drawn merely over the issue and criterion of individuals' relation to the means of production, but on much more complicated lines. A better classification might be . . . those who gained their wealth by means of confiscation, robbery and confiscation of other people's noncoercive activities, and those who gained their wealth by means of free trade in a free market, by the method of voluntary exchange. (1994, 24)

An intern of ours in a week or so at the Library of Congress confirmed that the creation of *every* new federal regulatory agency from 1900 on, from the (predecessor of the) Food and Drug Administration to the Occupational Safety and Health Administration, benefited in part from substantial business support. Even if we had not been interested in or familiar with the history of regulation, however, nothing we observed during five years in Washington would have led us to give the benefit of the doubt to business. We grew increasingly jaded by the lobbying efforts of business leaders, including some prominent free-enterprise speechmakers.

Unfortunately, there is no consensus among historians, economists, or political scientists about the frequency or extent of business's political advocacy, only agreement on the existence of it. Nor is there much interdisciplinary contact. Political scientists, for example, seem never to have heard of the historian Gabriel Kolko,[8] and they disparage studies of economists such as George Stigler[9] on the grounds that they

7. Weaver (1988) summarizes historical evidence in a fascinating way, as does Childs (1994). A problem is that many historians and political scientists discuss "interest groups," especially rich ones, but do not finger business explicitly. Meier (1985) has a nice summary of the history of regulation in chap. 1.

8. Kolko (1963), a Marxist historian, performed a great service for all courageous advocates of the market. See also Kolko 1965, on the beginnings of railroad regulation.

9. Stigler's important contribution was his article "The Theory of Economic Regulation" (1971). See also Stigler 1975 and Peltzman 1976.

"already knew" about interest groups (Meier 1988, 22). Historians are a little better, but most economists ignore everything not quantitative.[10]

There are also several levels of confusion, especially among political scientists, over the ethical implications of business lobbying. Is it all that bad, they ask? After all, isn't government just a benign tool of social policy, analogous to, say, a shovel? Maybe any interest group in our society, even business, should have the right to seize this tool by the handle, as it were, and seek to achieve something. Their view is that the role of politics is to create rules for sharing the tool and to put limits on the strongest—namely, "those huge corporations."[11]

Two concepts somewhat useful in helping to illustrate this tendency of business to take political advantage of its resources are rent seeking and corporate welfare. *Rent seeking* is a term used by economists to refer to any expenditure of scarce resources to capture a transfer—that is, to achieve returns in excess of those a competitive market would provide. *Corporate welfare* is a popular term coined originally as a pejorative by business critics and refers generally to business subsidies. Both concepts have beneficial as well as limiting aspects.

The most positive aspect of rent seeking is that it has helped economists to recognize the scope and costs of political redistribution by special interests, including business. A limitation is that emphasis is usually on empirical measurement of "waste" as a way of identifying "socially unproductive behavior." A second drawback is that the term has come to describe many productive market activities, such as advertising.[12] It has limited usefulness as an ethical barometer, and the term itself is more benign-sounding than *profit seeking,* which we stoutly defend.

The term *corporate welfare* is at the other end of that spectrum because everyone detests it instinctively, even those who are not sure of its meaning. Unfortunately, two definitions vie, each with a different slant on taxes. Antimarket spokesmen consider so-called tax expenditures—credits, deductions, deferrals, and exemptions—to be especially egregious because these funds are allegedly paid by taxpayers and given to business. The solution to the perceived problem is obvious to them: eliminate such "expenditures" and raise the taxes on business.

The irony is that the same critics are happy to use business taxes as incentives to induce firms to take certain actions. Targeted tax benefits are a popular tool of manipulation, which corporate leaders frequently support and accept willingly. Some pro-market organizations, such as the Cato Institute, use the term both because it is use-

10. The point is not to disparage positive methodology but to bemoan the interest in mathematical determinations of *"optimal regulation"* and ignorance of the work of nonmathematical historians. Interesting essays have been written by Jack High and Robert Tollison on the march of perspectives among economists (High 1991, 1–17 and 59–76).

11. This is an admittedly blatant but hardly unfair paraphrase of the positions held by most political economists. For example, Meier (1985) discusses several *"myths"* about economic regulation in just this tone.

12. Two interesting articles on rent seeking that point out the contradictions of "utilitarian approaches" to waste and of government enforcement of "free-market rent seeking" are Pasour 1986 and DiLorenzo 1988.

ful and because it helps them to avoid being seen as apologists for business, but they usually qualify their use by adding a brief explanation that universal tax policies are not "corporate welfare."

As used generally, the term conveys nothing positive about free markets, and it is opposed for reasons good and bad. An example is the more than $7 billion in subsidies that will have been paid by 2006 on publicly financed sports facilities for the benefit of privately owned professional sports teams (Bast 1998, 1). Taxpayers in these markets are confused by the cost-benefit arguments of urban planners and politicians, and ethics is rarely seen as germane to the debates.

Two other shortcomings of these two concepts, rent seeking and corporate welfare, are: first, each is perceived as morally neutral—that is, either right or wrong, depending on the situation; and second, neither term is ever used or referred to by business-ethics professionals. Not one of the most used business-ethics texts shows either term in its index.[13] Whatever value these terms may have in demonstrating that business is guilty of using government for its purposes is diminished by their inability to penetrate the business-ethics fog.

Yet, for all this, it must be getting more difficult to avoid seeing a pattern. As a detective might put it, "The fingerprints of business are all over government." Although no single compilation is available, the widely dispersed evidence seems clear that for two centuries no type or area of economic intervention—from trade policy to wars to farming to education to finance to so-called consumer issues—has lacked business advocacy.

The Business Ethicists

The discipline of business ethics is relevant to this discussion only in the sense that its practitioners have managed, with the aid of the business schools, to capture the subject area. Its scholarly contributions are mostly irrelevant. In fact, although scholars had written about the ethics of commerce for decades, at least since the 1930s, only during the 1970s did the subject become a full-fledged discipline, an academic "growth" industry.

In the early 1970s, the American Assembly of Collegiate Schools of Business (AACSB) undertook a major analysis and revision of the subjects being taught in business schools.[14] There was no mystery about why a study was commissioned. The organization sought (1) to maintain its leadership as an accrediting agency for business schools, (2) to be sure of incorporating the major trends in education and busi-

13. This conclusion was true of more than a half-dozen academic texts consulted. At the University of Louisville, the instructors have used De George 1995 and Velasquez 1998 in the past few years. There are a few excellent books on business ethics, notably Den Uyl 1984, Machan 1988, McGee 1992, and Chesher and Machan 1999, but none is a classroom text. To date, I'm aware of no free-market text.

14. This perspective on the role of the AACSB in advancing the discipline is based on several conversations with Jesse M. Smith, an executive at the association from 1970 to 1975.

ness, and (3) to provide guidelines for schools that were seeking to be accredited (without causing any trouble for those that already were).

Owing to several influences, the ethics of business executives and corporations had become an increasingly common subject of articles and speeches. One cause was the message of books by Harvard economist John Kenneth Galbraith. Originally hired as an agricultural expert, who preferred writing prose for laymen to doing research for economists, Galbraith taught readers that large corporations had virtually unlimited power, which led many to assume that society was totally dependent on the goodwill or "ethics" of those in charge of the big firms.[15]

Another cause of this notoriety was the growing environmental movement, spawned in part by Rachel Carson's 1962 book *Silent Spring,* in which it was argued that pesticides (read DDT) were gradually killing birds and wildlife. Although in the 1950s companies had proudly adopted slogans such as "Better Living Through Chemistry," by the 1960s chemicals were feared, and corporations were successfully blamed for every negative aspect of them.[16]

The issue of business ethics came to a head during the Nixon administration, when price increases, energy shortages, and even Watergate were blamed on soulless corporations. Because the major parties implicitly had agreed long before that business should be associated with Republicans, the corporate community took the brunt of the blame for everything stupid or evil that occurred under Nixon. Articles on business ethics began to show up everywhere.

As a result, the AACSB put in its report that in order to be accredited business schools should guide their students toward some understanding of ethical issues. It was not a mandate that a course be taught in business ethics, merely a soft recommendation that ethics become part of the business school experience.[17] This recommendation probably had more long-term impact as a signal of a new area of academic specialty than as a call for bona fide action by schools.

At once, business school deans, especially at institutions aspiring to become AACSB accredited, leaped into action. Faculty members were polled about interest they might have in teaching ethics, and in the mid-1970s the first major summer workshop for faculty instructors was offered at UCLA. At certain already accredited

15. Many people, most prominently Ralph Nader, were not willing to rely on goodwill, which led to proposals for various government solutions, such as federal chartering of corporations, control of directors, government oversight, and so forth.

16. The Environmental Protection Agency was established in December 1970. The federal government was charged with solving problems that business, or, more precisely, the market, had allegedly caused. The notion then popular, and still taught in business-ethics classes, is that pollution is an inevitable result of profit seeking.

17. There is a great deal of evidence of this development, even in the introduction to several of the standard texts. De George (1995), for example, refers in his introduction to how "young" this whole field of study is. In fact, the AACSB today does not mandate a course in business ethics, and some business schools have dropped theirs.

business colleges, a note was simply sent to the philosophy department to locate a business-ethics volunteer.[18]

The practical result of this recruitment was that the discipline was launched and lesson plans were developed by people who either *(a)* had no training in ethics and no preconceived notions about the subject, such as business school faculty members without a niche, or *(b)* had training in ethics and likely did have preconceived notions, such as philosophers anxious for the chance to inculcate in business students ideas about corporate responsibility.[19]

By the late 1970s, the discipline of business ethics was rolling. The Center for Business Ethics at Bentley College began in 1976, immediately allowing Michael Hoffman, its founder and director, to posture as an international authority.[20] The first business-ethics text came out in 1978, and the *Journal of Business Ethics* began in 1982. By then, the colleges were teaching the subject, and young executives were being hired to "put it into practice."

What does the business-ethics discipline consist of? In reality, business ethics is a subdiscipline of philosophy, and most journal authors are philosophers by training. However, because almost every business-oriented issue in its purview has an economic aspect, a recurrent problem is that many analyses seem to be missing a crucial component. One example is the contentious issue of "comparable worth." Many business ethicists seem incapable of grasping or are unwilling to accept that the wages paid to women depend on the demand for their services and the supply of competing labor.

Business law expert Laura Pincus summarized the issue: "Champions of comparable worth argue that each job has an inherent value irrespective of the market; that the market thus is imperfect in its valuation of females in these positions, and that the law should create a hierarchy of job positions which are of comparable worth and set salaries accordingly. They refuse to accept that an employee's economic worth is determined by his or her salary. Due to this flawed approach, they fail to recognize that incomparable wages derive not from faulty wage-scales but from the supply and demand curves that are formed" (1992, 1).

Economics aside, the bottom line is that, save for one thing, virtually nothing that society at large would like to achieve is beyond the scope of business ethics. More jobs? Higher pay? A cleaner environment? Truth in advertising? More warning labels? Fair prices? Whistle-blowing? All are included. Who has a "stake" in a particular cor-

18. Robert L. Taylor, formerly the dean of the University of Louisville's College of Business and Public Affairs and an AASCB leader, believes that ethics is a subject that seems to require grounding that only trained philosophers have.

19. Some business ethicists are Marxists, and they presumably would agree with a 1998 article in the *Journal of Business Ethics* that the "strategy of a Marxist approach to business ethics . . . is to criticize capitalism by way of pointing out how morally incompetent it is at the very core of its being" (Corlett 1998, 100).

20. Hoffman, who almost claims to have founded ethics single-handedly, makes much of his consulting with "ethics officers," corporate executives whose purpose it is to worry about the vast agenda of issues. He started and serves as executive director of the National Ethics Officers Association.

poration? Employees, neighbors, customers, suppliers? In short, the scope of business ethics has no limits.

The only area that the discipline considers taboo—the attitude that its practitioners see as unequivocally at odds with the very notion of business ethics—is self interest. The literature, as one may gauge by journal articles and textbooks, presents a general consensus that profits are not an ethical goal for business. One cannot help but be reminded of the first paragraph of *The Ego and His Own* by the nineteenth-century German philosopher Max Stirner: "What is not supposed to be my concern! First and foremost, the Good Cause, then God's cause, the cause of mankind, of truth, of freedom, of humanity, of justice; further, the cause of my people, my prince, my fatherland; finally, even the cause of Mind, and a thousand other causes. Only *my* cause is never to be my concern. 'Shame on the egoist who thinks only of himself!'" (1918, 1). Just as it is taught in some circles that individuals should not think of themselves, so this altruistic philosophy drives the core beliefs of business ethicists. The difference in breadth only reflects the common perception about what constitutes a corporation. If corporations are created by government,[21] as is widely believed, then citizens of that state have the right to expect such a powerful entity to be socially responsible—hence, this long agenda. Never factored in, of course, is the role of either prices or profits in management.

In truth, management specialists in business schools have always had an attitude of "We'll compete in any system; just tell us the rules." The presumption is that their graduates should be able to function effectively as managers in *any* nation, under *any* conditions. This independent attitude might be praiseworthy except for the reality that many business owners and executives expend the bulk of their energy in seeking to alter the rules in their favor.

These graduates are like football players on the offense who, given a chance, would like to change the rules of the game to make it more difficult for the defense. However, the fact that football players have speed and size and talent does not qualify them to modify the rules of their sport. Neither are business executives, because of their wealth or their easy access to Congress, qualified to modify the rules of the economic marketplace.

Ethics should be taught in business schools, but the subject should deal with the meaning of a free and open market, economic competition, private property, and wholly voluntary exchange. A student upon whom that version of ethics has been impressed will want to take the high road and will oppose government interventions. Instead, students are provided no understanding of any ethical barometer other than market agnosticism, undergirded by altruism.

Given this apolitical approach to the curricula, one can only assume that those hired to instruct business majors in ethics must be carefully instructed not to come down too heavily on the side of free markets. If such is the case, the hirers appear to

21. If true, why should a corporation not pay a standard "tribute" whether profitable or not? Racetracks in most states have had the gaming market to themselves for many decades, which could be said to justify the pari-mutuel tax paid on gross receipts. Corporations, however, must pay state taxes only if they are profitable.

have succeeded all too well. In fact, as Karol Boudreaux has stated, the reality is that "virtually all business-ethics textbooks are commonly driven by a virulently anti-business agenda" (1996. 33).

Milton Friedman's Thesis

During the 1970s, the best-known defender of the free market in the United States was Milton Friedman. He had a regular column in *Newsweek* magazine starting in 1966 (Friedman 1972, ix), and because of his worldwide reputation, he was interviewed in *Playboy* magazine in February 1973. He became a counterforce to Galbraith, whose 1977 television documentary *The Age of Uncertainty* was followed three years later by Friedman's own television program *Free to Choose*.

Friedman gained a permanent place in the business-ethics literature with an essay published in the *New York Times Magazine* on September 13, 1970. The article—which expanded on a chapter in his 1962 book *Capitalism and Freedom*, itself based on a series of lectures at Wabash College in the 1950s—was called "The Social Responsibility of Business Is to Increase Its Profits."

Much in the essay is directly to the point of a free-market ethical standard for business, as described herein. Friedman, as always, did a stirring job of defending the right of business to seek a profit. and showed himself a valiant defender of private property, individual freedom, voluntary exchange, and principles. In my judgment, however, he missed the mark in the narrowness of his definitions and his prescription for business.

Friedman's position might have been limited to one simple premise: salaried executives of a public corporation by implicit legal contract have a fiduciary responsibility to the shareholders of the firm that gives them the right to use corporate resources *only* to increase the wealth of those stockholders by seeking profits. The implication of this position is that they have no right under the contract to act on their own preferences, to make discretionary decisions, or to expend resources of the firm to achieve social goals that cannot be shown to be directly related to profits and, hence, to their fiduciary responsibility.

Had this affirmation been Friedman's thrust, his article would have been an interesting discussion of the theory of contractual relationships in public corporations. And, to the point, it would not have given the impression that the world's foremost advocate of capitalism believed that something inherent in the nature of commerce makes it incompatible with any involvement or interest in a pursuit other than profit. But Friedman went beyond the role of managers as corporate owners' agents, arguing that any "social" action would require a business manager to spend money that was rightfully the property of employees and even customers.

As stated previously, the distinction Friedman drew between owners and hired managers was also much too sharp. One (not the only) long-term goal of the management of any business—whether a sole proprietorship, a general partnership, a limited partnership, a close or a public corporation, even a limited liability company—is to increase owner equity. Unless a business is run as a "not-for-profit" enterprise, its goal is not likely to differ because of its legal form.

Whoever manages the business, regardless not only of legal form but also of proportion of equity owned, must make decisions about capital investments, retained earnings, profitability, depreciation, public relations, and a variety of other issues. A general partner, depending on the enterprise, can function as a manager with a relatively modest share of equity. Must that fact limit him as much as Friedman limited corporate managers?

The fundamental advantage of the corporate structure is that it enables the amassing of substantial amounts of capital. Secondarily, it provides limited liability. These features must go hand in hand. A person is willing to invest in a joint-stock company precisely because no responsibilities go with ownership. Although stockholders are ultimately the ones for whom the managers work, investors can be oblivious to them, buying and selling stock on the basis of market price alone, getting in and out as they see fit.

Most investors do not attend shareholder meetings, and they tend not to focus on issues that management may consider to be of "social" relevance to the corporation. Because those who own stock have the right—and, increasingly, the ability—to sell whenever they like, as often as they like, this arrangement is wholly voluntary. Thanks to computers, investors today have more flexibility than ever before. No manager can hold them hostage.

Likewise, contrary to Friedman, no manager can "tax" the shareholders. Friedman asserted: "if [the manager] spends the money in a different way than [the owners] would have spent it . . . he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other" (1972, 179). But an executive's decision to spend money on a social issue is not a tax in any standard sense of that word, meaning a "forced contribution of wealth" from which the taxpayer has no means of escape.

As long as shares may be bought and sold voluntarily, it is an exaggerated misnomer to refer to a disbursement of funds not directly intended to increase profits as a tax. Just as market prices of goods convey key information to buyers (enough that they need not research why any given price has changed), so market prices of stock, plus other disclosures a public firm makes, convey key information to buyers (enough that they need not research why the stock price is not higher, even if the reason might be contributions). "The price system transmits only the important information and only to the people who need to know," Friedman observed (1980, 15). Does this statement apply only for pencils or for securities as well? Besides, although "extraneous" expenditures may cause stock prices not to rise as high, thereby "decreasing wealth" in the short run, why does this result necessarily signify an unethical or "irresponsible" decision? Might it be just ill-advised or stupid?

It is not difficult to see or agree with the logic of Friedman's statement that the "primary responsibility" of a corporate executive is to the owners (or shareholders) of the firm. Business ethicists should understand that point. Still, by what logic do customers have a right to purchase goods at a low price? Friedman contended that a second reason a manager cannot spend funds for social causes is that "[i]nsofar as his actions raise the price to customer, he is spending customers' money" (1972, 179). Unfortunately, most business ethicists would agree. Friedman also argued, along the same lines, that, "[i]nsofar as his actions lower the wages of some employees, he is spending their money" (179). Karl Marx himself would probably agree with that claim. Both positions seem difficult to square with a free market.

Is a corporate executive responsible to a constituency other than the firm's owners? That shareholders are only one of "a great many constituencies" is now a fundamental premise of business ethics (De George 1995, 132). Further, Richard De George preaches, "It is not accurate to claim that a corporation owes allegiance only to the owners or shareholders of the firm. Nor is it clear from a moral point of view that the interests of the shareholders always take precedence over other interests" (132). Friedman must be the devil in De George's religion.

Yet, although Friedman did not include all of the groups now asserted to have a stake in a corporation, he certainly did seem to acknowledge three of them: "The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so. The executive is exercising a distinct 'social responsibility,' rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it" (1972, 179). If, as it seems, Friedman was saying that customers and employees have a stake in the company, he should have acknowledged at least that these groups' interests are not equal to the shareholders' interests. Otherwise, how are these interests to be reconciled?

In truth, of course, if stakeholders are considered to have some legal right to influence corporate governance, their interests cannot be reconciled. As Norman Barry has pointed out, the very concept of corporate control by stakeholders is both "illogical and impractical." Writes Barry, "Not only would [stakeholder theory] amount to an additional cost on the stockholders . . . but it would also completely overturn customary methods of decision making in a company and might well make capitalist enterprise impossible" (2002, 542).

To my knowledge, Friedman never wrote anything further on either business ethics or stakeholder theory, preferring to leave the confusion alone. Unfortunately, the consensus today is that the study of business ethics must begin with a recognition that many "constituencies" exist—that is, many groups affected by the corporation's actions.[22] It seems as if that simple fact can be conceded without denying shareholders their private-property rights.

It is not adequate to say, as Friedman did, that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to

22. These days, says Jeff Scott, "Stakeholders are conceptually flaccid and politically muscular," causing CEOs "to act as diplomats in a political rivalry rather than [as] executives" (1998, 1).

increase its profits." Just as a not-for-profit company is allowed to make a profit, so a for-profit company might have secondary or tertiary nonprofit goals. Clearly, it might be argued that a college has the right to put sports ahead of scholarship. In a free society, a company can be as "socially responsible" as its management chooses to make it. D. Liechty argues that by not allowing business to do anything "socially responsible," Friedman, in essence, is telling communities and others who believe they have a stake in the company's actions that their only option is to get government to force the company's hand (1985, 205). The official position of the Business Roundtable suggests that many CEOs of large corporations share this perspective (Sigler 1981).

Friedman's denial of any other possible approach has rendered his position a convenient "straw man" for business ethicists. They contend that he neglects all of the ethical issues for the sake of a purely economic approach. He totally rejects the idea, they argue, that any other group can have a stake in the corporation's actions. At which point, he, economics, and all references to profits and markets are declared officially irrelevant to ethics.

A serious question for Friedman is, What if a corporate manager believed that the corporation's future and therefore the long-term security of the owners' wealth required that free-market capitalism be defended by organizations such as the Independent Institute? Would that manager be empowered to invest corporate funds? Does it matter whether the check were big or small? Would a big check be a high "tax" and a little check be a low "tax"? What if that manager were not sure whether an investment in the market would really help the company, or if a group defending capitalism were capable of having a positive effect?

Although it is difficult to understand why contributing to such an organization could not be permitted, Friedman argues that corporate managers can never justify making such investments on "free-market" principles. Only a motive of profit seeking for the firm, never an improved society or business climate, can justify such a donation. This approach seems short-sighted. Doug Den Uyl observes, for example, that Ford's extremely profitable 1914 decision to raise wages and shorten its workday was considered an act of charity, a "spiritual principle," by the editors of the *Wall Street Journal,* and he concludes: "it may be better to let the market decide whether quality circles, Scanlon plans, participatory management, corporate charity drives, rehabilitation programs, and the like are fads or ultimate profit enhancers, than it would be to listen to either Friedman or Nader tell us what is or is not 'profit maximizing' or 'socially responsible'" (1984, 29).

The entire debate between the ethicists and Friedman rests on the premise that profits are sought by individuals who are acting in their own self-interest, whereas solutions to alleged social problems are sought by individuals who are not acting in their own self interest. In fact, at issue is not what individuals involved in business *ought* to do, but what individuals in business *should have a right* to do. The ethicists argue that business enterprises ought to work for social concerns, whereas Friedman argues that business should work only for profits.

I maintain that a business enterprise, regardless of legal form, has the same rights as the individuals who compose it to act in its own self-interest. Doing good by giving their wealth away is exactly what gives many people the self-satisfaction they crave. Doing good by providing goods or services as efficiently as possible is exactly what gives others the most satisfaction. Involvement in trade or commerce is wholly compatible with either objective.

Friedman on Lobbying

What precisely did Friedman mean by his statement that a firm should engage in activities designed to increase its profits "as long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud?" (1972, 184). What, for example, constitutes the "rules of the game" and what might be included in "activities designed to increase its profits"? What about taking advantage of special privileges?

When our organization began in 1979, we were under the impression that Friedman opposed business people's *seeking* subsidies, tariffs, and other special privileges, but that he conceded, albeit reluctantly, that a corporate executive would be duty bound to take advantage of benefits *already* on the books, those that lay, so to speak, "within the rules of the game." Though we found this position disappointing, we understood it.

In fact, however, when Friedman was approached by certain corporate executives, he broadened his position considerably. They explained to him that they believed in free enterprise and profits and that they agreed entirely with his views on social responsibility. In their view, however, to operate "within the rules of the game" meant that they could *legally* lobby for all the help they could get, knowing that government might not give them all they wanted.

On the basis of his philosophy and his words, he gave them a green light, as witnessed by Charles H. Brunie, chairman of Oppenheimer Capital Corporation: "William Simon in his book, *A Time for Truth,* keeps castigating businessmen for running down to Washington and looking for handouts, as opposed to sponsoring the free market. Ralph Leach, the retired Vice-Chairman of Morgan Guaranty, and Milton Friedman have each told William Simon they disagree with him. They maintain that is exactly what a businessman should do; he should run to Washington for all the help he can get; it is the politician's job to say no" (qtd. in Wilcke 1983a, 2). This speech by Brunie, by the way, was delivered to a group of supposedly free-market business people and mailed to a large group of supposedly free-market executives and owners. Most of them would have agreed that although in principle a strictly free-market ethical standard is a good thing, "we have shareholders to worry about." When asked if they might at least admit to "aspiring" to a free-market, most politely declined.

The Role of Politicians

Friedman argued eloquently that market economies in which consumers are "free to choose" are both more efficient than and ethically superior to command-and-control economies and that government is "the agency that is widely regarded as having a monopoly on the legitimate use of force or the threat of force as the means through which some of us can legitimately impose restraints through force upon others of us" (1972, 28). How, then, could he deny that it is unethical for business to use government to override the choices of consumers?

His position, which seems to have resulted from his willingness to defend an implication of his 1970 article, is that although business enterprises should abide by the ethic of economic freedom, the responsibility for it lies with the government, especially with elected officeholders. An agent of the owners of a profit-seeking corporation has no responsibility for it. Just as managers purportedly give up their rights as individuals to take actions other than seeking profits, presumably they also give up responsibility to behave ethically with regard to politics.

Responsibility for this "business ethic" is shifted to agents of the government. Elected officials are supposed to "say no" to the amoral agents of business when the latter come asking for favors. "Limited lobbying," however, is no more likely than limited warfare. Businesspeople tend not to accept "no" for an answer. According to Friedman, as long as their motives are to seek profits for the company (rather than some "social good"), they have a "responsibility" to use the firm's resources to engage in any activities "within the rules of the game."

What businesspeople do—what they have always done—is to "pull out all the stops." If a politician says "no" too often, they will take, as good business managers should, a longer view, which is to work to replace that politician with one who is more likely to say "yes." If a strict interpretation of the Constitution is the reason for the politician's "no," the businesspeople will sponsor research, start a think tank, or do whatever else might be necessary to change that interpretation. Corporate interests, not to mention agricultural interests, have employed many methods to affect politics through education and persuasion.[23]

Given that corporate executives have both the motive (profits) and the means (the firm's resources), over the long run they will always overwhelm government's ability to say "no." The only possible brake would be widespread ethical disapproval, especially among potential customers. The idea that business should do everything legal in the cause of profits is wrong because in that event no ethical responsibilities constrain their political activities.

Government is an imperfect reflection of public attitudes on every topic that has political implications. As George Will once wrote, politicians are like the windsocks at small airports—filled for the most part with air, but useful nonetheless as indicators of which way the wind is blowing. Did Friedman truly believe that we should allow politicians to define and enforce the ethical standard for society? A business, regardless of legal form, consists of people. If it is unethical for an individual to use the government to steal, it cannot be ethical for a corporation to do so.

23. Elizabeth Fones-Wolf, though focusing on the postwar antilabor message, has made a useful contribution nonetheless by stressing "business's ideological campaigns" (1994, 10).

Several decades ago, whenever a college basketball program was accused of cheating in its recruiting, the standard response was that "everyone does it." In the absence of evidence to the contrary, this response was accepted as fact by the media and, hence, by the public. Then a small number of successful, prominent coaches decided to stand up for honesty. As soon as it became evident that some universities took a "high road," it was no longer possible for cheaters to rely on that response. The spotlight was on, so to speak, and the party was over.

It will never be possible to change the public's perception of business and of the free-market system until it becomes clear that some businesses desire to prosper or fail solely according to the dictates of the market. Once it becomes clear and well publicized that not all firms place profits above everything else and that not all firms use every resource available to change laws in their favor, the public will begin to understand that the problem is not the business *system,* but business *ethics*. Giving corporations carte blanche won't bring us to that day.

Politicians themselves never see their jobs as saying "no." Most tend to see their jobs as one of saying "yes! yes! yes!" to as many constituencies and interest groups as is humanly and fiscally possible. Government, especially in a democracy, thrives on its ability to grant favors. How many members of Congress will turn down a corporate executive who wants help if they do not have to do so? Any member of Congress who argues on principle that the business community should not be asking for government aid would be told that "even Milton Friedman agrees that we should be trying to get all the help we can!"

In a 1981 letter to me, Friedman acknowledged the futility of change through politics and the significance of public opinion: "Like you, I do not believe the solution to our problem is simply to elect the right people. The important thing is to establish a political climate of opinion in which it will be politically profitable for the wrong people to do the right thing. Unless it is politically profitable for the wrong people to do the right thing, the right people will not do the right thing either, or if they try, they will shortly be out of office" (Friedman to Wilcke 1981, as qtd. in Wilcke 1983b).

Several Obstacles

One vexing obstacle to urging adoption of a free-market ethic is the belief that business should never be criticized lest the system be undermined. Some people disliked our group's advocacy of taking a high road precisely because it implied that some businesspeople were taking a "low" one. They disliked any hint of transgressions by business, and a number of angry letters (even from conservatives and objectivists) asked why we insisted on adding to anticapitalist feelings that were already too prevalent. "All you're doing," they wrote, "is giving ammunition to the antimarket side. To say that all interventions are bad undermines the system you want to save."

The message was always "don't bash business." Even William Simon, whose book helped us to launch the organization, could not avoid blaming government: "I still believe it is obvious that business . . . is more sinned against than sinning. This view, of course, clashes with the conventional liberal wisdom that business is 'really' controlling the regulatory agencies. It is easy enough to arrive at an objective assessment of where the power 'really' lies. Just ask yourself if the dictatorial and destructive situation . . . in the regulatory agencies could possibly exist if business 'really' controlled these agencies" (1978. 197). The point here, however, is not that every firm or industry has always worked for regulations and benefited from them, but that some firms from most industries have done so. Great enterprises have been built by entrepreneurs who did not ask for government help.[24] Indeed, that spirit is still alive, but such individualists tend to be disinclined to serve as examples.

In contrast, almost every elected official—certainly every member of Congress, including avowed socialists—likely got into office with the support of corporate donors. Business can always be found on all sides of every election campaign, liberal or conservative, Democrat or Republican, even capitalist or fascist, and corporate interests can usually be found on both sides of even the most onerous regulations. One might paraphrase William Shakespeare's famous comment on ill winds: "Rare blows the regulation that profits nobody."

The other obstacle, related to Friedman, is intellectual influence, especially of the people who have a reputation for knowing better. It is a sad fact that prominent scholars' deviations can have a powerful impact (sometimes in the opposite direction of their life's work) when cited by their adversaries—for example, "Even Adam Smith said businessmen would conspire to fix prices," or "even Nobel Laureate James Buchanan believes in estate taxes."

Years ago, to attend a meeting of the Foundation for Economic Education, I rode in a limousine from Washington, D.C., to Irvington, New York, with Steve Symms, who was then a Republican senator from Idaho. On the way, he found out that I, like him, had spent time in the Marine Corps. He asked, "Don't you agree with me that the country would be a lot better off if every young man at the age of eighteen was made to go through Marine Corps boot camp? Wouldn't it be great for them?"

I said, "Well, I'm not so sure I thought boot camp was as uplifting as you seem to feel it was, but it sure didn't hurt me. But remember you and I were volunteers. I wouldn't like the idea simply because I don't believe in drafting people." He said something like, "You're wrong. Even Ludwig von Mises, your hero, understood and

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24. Burton Folsom has written books that, although acknowledging statist businessmen, have sought to celebrate creative entrepreneurs, thereby helping to distinguish between "predators" and "builders" (see Folsom 1987, 107).

defended the need for the draft." He immediately scored one because, of course, Mises is one of my heroes.

Optimistic Conclusion

For years, my primary focus, an area I still consider to be a specialty, was agricultural economics. In the mid-1970s, I began to scour the literature of agricultural economics, both books and journal articles, in an effort to find scholarly works on agriculture that were even slightly market oriented. After a mostly futile search and correspondence with scores of people, I concluded that the nature of the U.S. Department of Agriculture and land grant complex discouraged such thinking.

Now, twenty years later, in what is for the most part a reaction to the reality of politics, agricultural economists have begun to endorse more market-oriented policies. This reaction suggests to me that Keynes might have had the matter precisely backwards: it is ideas of *politicians* that "are more powerful than is commonly understood" and economists who distill their frenzy from the air and are the slaves of some "defunct" politician.

When I was trying to get agricultural economists to acknowledge the free market even as an ideal, they refused to do so. I can count on one hand the brave souls who would even discuss the issue in 1978. Now, on what grounds do these economists, most of them career statists, explain that policy prescriptions in their more recent books and articles are radically different than the prescriptions in their earlier ones? Elementary, Watson! The economy has changed. New data!

An example comes from a book by Willard Cochrane and Ford Runge of the University of Minnesota, well known as a traditional fount of rural interventionism: "It is the basic premise of this book that current farm policy badly needs reforming. In particular, the commodity programs which form the core of the policy are out-of-date, and out-of-sync with the modern farm economy. . . . In the 1930s, the Great Depression years, when the programs were conceived, the vast majority of farmers were medium-sized farmers, and almost all were in financial trouble as the result of disastrously low farm prices. The programs were designed to deal with the common problems of this broad group of farmers. And they largely succeeded" (1992 3). I need not argue these points here. Let the statement suffice to show that the authors admit no errors. Instead, they say, "We recognize that different times require different policies."

Likewise, business ethicists may change their tune about profit seeking on the grounds that times have changed. They may say, "In the past, when firms were far less ethical, it was important to point out socially responsible goals, but now that there is a standard of corporate behavior based on the free market, we endorse profits. Those old ideas are no longer 'in sync' with today's enlightened and ethical business community." Well, one can dream.

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