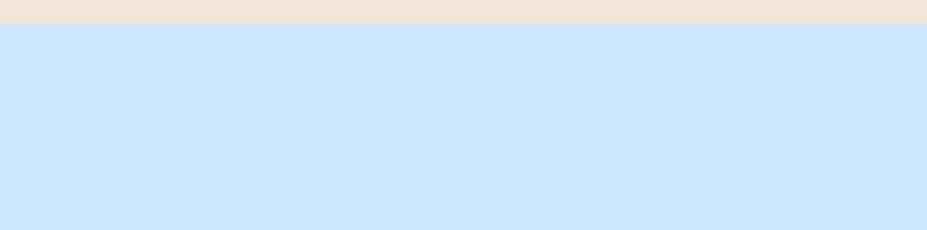
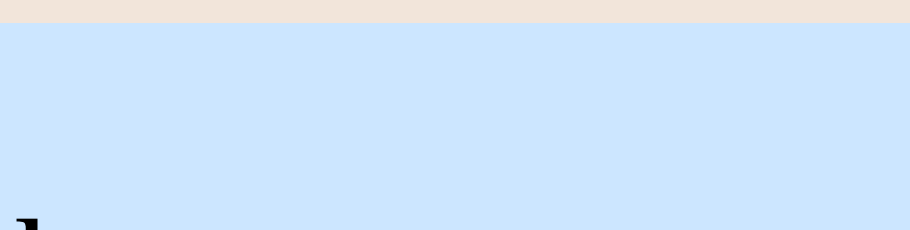
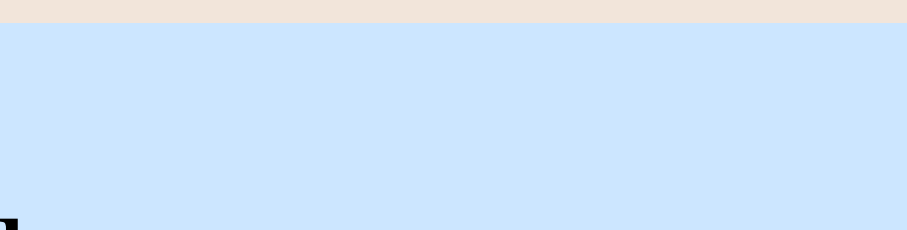
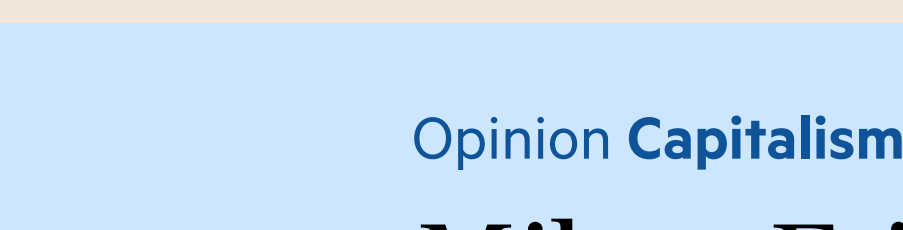


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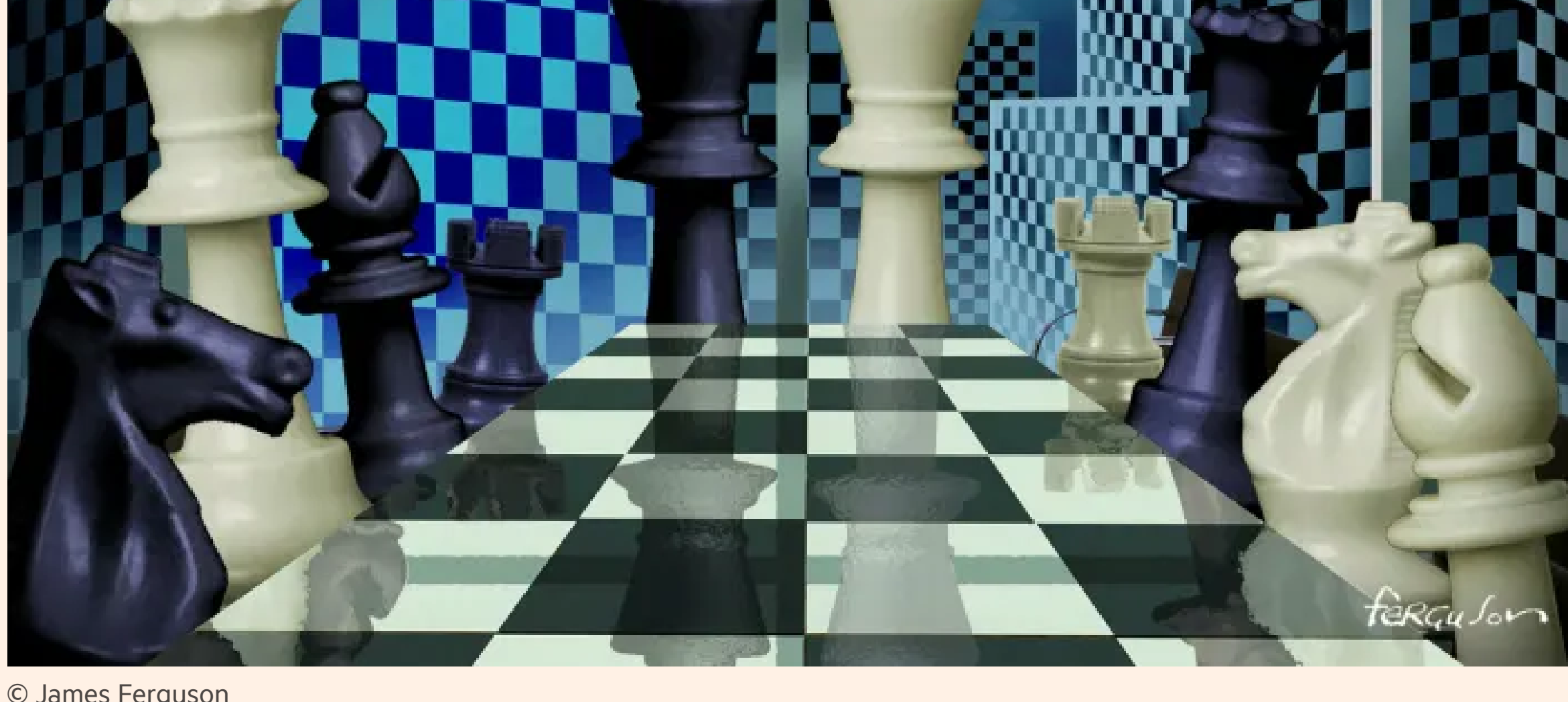
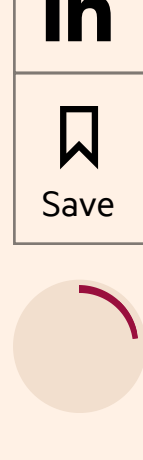
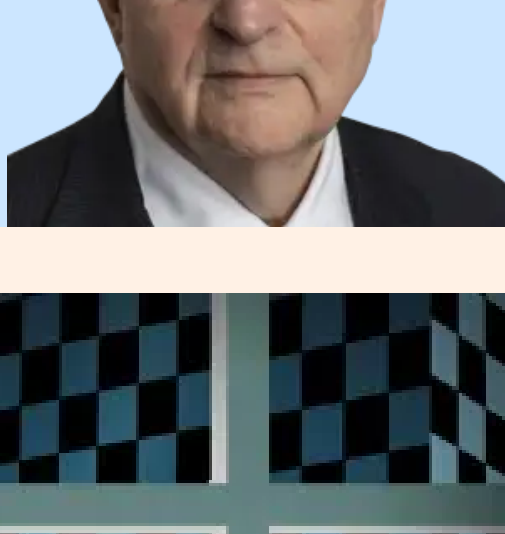
Opinion Capitalism

Milton Friedman was wrong on the corporation

The doctrine that has guided economists and businesses for 50 years needs re-evaluation

MARTIN WOLF

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Martin Wolf YESTERDAY

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What should be the goal of the business corporation? For a long time, the prevailing view in English-speaking countries and, increasingly, elsewhere was that advanced by the economist Milton Friedman in a New York Times article, “[The Social Responsibility of Business is to Increase Its Profits](#)”, published in September 1970. I used to believe this, too. I was wrong.

The article deserves to be read in full. But its kernel is in its conclusion: “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.” The implications of this position are simple and clear. That is its principal virtue. But, as H L Mencken is supposed to have said (though may not have done), “[for every complex problem there is an answer that is clear, simple, and wrong](#)”. This is a powerful example of that truth.

After 50 years, the doctrine needs re-evaluation. Suitably, given Friedman’s connection with the University of Chicago, the Stigler Center at its Booth School of Business has just published an [ebook](#), *Milton Friedman 50 Years Later*, containing diverse views. In an excellent concluding article, Luigi Zingales, who promoted the debate, tries to give a balanced assessment. Yet, in my view, his analysis is devastating. He asks a simple question: “Under what conditions is it socially efficient for managers to focus only on maximising shareholder value?”

His answer is threefold: “First, companies should operate in a competitive environment, which I will define as firms being both price- and rule-takers. Second, there should not be externalities (or the government should be able to address perfectly these externalities through regulation and taxation). Third, contracts are complete, in the sense that we can specify in a contract all relevant contingencies at no cost.”

Needless to say, none of these conditions holds. Indeed, the existence of the corporation shows that they do not hold. The invention of the corporation allowed the creation of huge entities, in order to exploit economies of scale. Given their scale, the notion of businesses as price-takers is absurd. Externalities, some of them global, are evidently pervasive. Corporations also exist because contracts are incomplete. If it were possible to write contracts that specified every eventuality, the ability of management to respond to the unexpected would be redundant. Above all, corporations are not rule-takers but rather rulemakers. They play games whose rules they have a big role in creating, via politics.

My contribution to the ebook emphasises this last point by asking what a good “game” would look like. “It is one,” I [argue](#), “in which companies would not promote junk science on climate and the environment; it is one in which companies would not kill hundreds of thousands of people, by promoting addiction to opiates; it is one in which companies would not lobby for tax systems that let them park vast proportions of their profits in tax havens; it is one in which the financial sector would not lobby for the inadequate capitalisation that causes huge crises; it is one in which copyright would not be extended and extended and extended; it is one in which companies would not seek to neuter an effective competition policy; it is one in which companies would not lobby hard against efforts to limit the adverse social consequences of precarious work; and so on and so forth.”

It is true, as many authors in this compendium argue, that the limited liability business corporation was (and is) a brilliant institutional innovation. It is true, too, that making corporate objectives more complex is likely to be problematic. So when Steve Kaplan of the Booth School asks how corporations should trade off many different goals, I have sympathy. Similarly, when [business leaders tell us they are now going to serve the wider needs of society](#), I ask: first, do I believe they will do so; second, do I believe they know how to do so; and, last, who elected them to do so?

Yet the problems with the grossly unbalanced economic, social and political power inherent in the current situation are vast. On this, the contribution of Anat Admati of Stanford University is compelling. She notes that corporations have obtained a host of political and civil rights but lack corresponding obligations. Among other things, people are rarely held criminally liable for corporate crimes. [Purdue Pharma, now in bankruptcy, pleaded guilty to criminal charges](#) for its handling of the painkiller OxyContin, which addicted vast numbers of people. Individuals are routinely imprisoned for dealing illegal drugs, but as [she points out](#) “no individual within Purdue went to jail”.

Not least, unbridled corporate power has been a factor behind the rise of populism, especially rightwing populism. Consider how one goes about persuading people to accept Friedman’s libertarian economic ideas. In a universal-suffrage democracy, it is really difficult. To win, libertarians have had to ally themselves with ancillary causes — culture wars, racism, misogyny, nativism, xenophobia and nationalism. Much of this has of course been *sotto voce* and so plausibly deniable.

The 2008 financial crisis, and the subsequent bailout of those whose behaviour caused it, made selling a deregulated free-market even harder. So, it became politically essential for libertarians to double down on those ancillary causes. Mr Trump was not the person they wanted: he was erratic and unprincipled, but he was the political entrepreneur best suited to winning the presidency. He has given them what they most wanted: tax cuts and deregulation.

There are many arguments to be had over how corporations should change. But the biggest issue by far is how to create good rules of the game on competition, labour, the environment, taxation and so forth. Friedman assumed either that none of this mattered or that a working democracy would survive prolonged attack by people who thought as he did. Neither assumption proved correct. The challenge is to create good rules of the game, via politics. Today, we cannot.

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