

HOOVER INSTITUTION

ON WAR, REVOLUTION AND PEACE



Stanford, California 94305-6010

October 20, 1992

Professor Tom Carson
Philosophy Department
Loyola University
6525 North Sheridan Road
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Dear Professor Carson:

I am delighted to have someone as able and intelligent as you engage in a detailed exegesis of my writings on the social responsibility of business. I cannot deny that there is an apparent inconsistency between the two statements you quote. So far as I am concerned, I will stick by the original statement in Capitalism and Freedom with the one exception, as you suggest in your version 2a, that "increase its profits" should be replaced by "in accordance with the wishes of the owners." For the rest, I do not believe I would change it although I do not deny that there may well be borderline and ambiguous cases in which it is difficult to interpret exactly what the responsibility of the executive is.

Let me now turn to a few specific comments on points in your paper.

On page 3, I do not believe that unfair competition is the same as open and free competition. In fact, I believe that "unfair" is a meaningless word; it's in the eye of the beholder. I once gave a talk and wrote a Newsweek column on the difference between "free" and "fair." As I pointed out there, the word "fair" does not appear in the Declaration of Independence or in the Constitution while the word "free" certainly does. I don't know what unfair competition is and I don't believe you do either.

Your case 1 is one of those borderline cases and I would interpret it as on the same level as whether it is immoral to exceed the speed limit. Using the eight-inch insulation is neither fraud nor deception, and I would argue that your conclusion according to the first formulation is the one that I would accept.

Your case 2 is very different. I believe that it violates the first formulation. I believe that what you describe is a straightforward case of fraud and deception. It may well be in the interest of maximizing profits to engage in such fraud and deception, but I have ruled it out. Moreover, as I consistently assert, moral obligations apply to individuals, not to organizations. Hence, the president of X has a moral obligation not to engage in the fraud and deception that your case implies.

Case 3 is not a problem under my preferred formulation. Case 4 is more complex. I do not think your example is a good one. I believe that a far

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better example is the question of forming cartels. Consider the case of U.S. Steel which formed a cartel in the early days of the century but did not impede entry into the industry. As the standard expression is, it held a pricing umbrella over competitors, and as a result its share in the industry declined over time. Was U.S. Steel, or rather Gary when he organized U.S. Steel, engaging in open and free competition? Interestingly enough, that is a question that I believe I would have answered differently thirty years ago than I would answer now. When I wrote Capitalism and Freedom, I would very likely have said that Gary's behavior violated open and free competition. I would not say that now. I would say now that it is consistent with open and free competition so long as coercion or fraud or deception are not employed to prevent competitors from entering into it. On the other hand, I would still regard a secret price-fixing agreement as not consistent with open and free competition, but I readily grant that this is an area in which there is a great deal of room for disagreement and in which the accepted views have been changing considerably over time.

Re case 5 as well as the later discussion by Noonan in your footnote 22 (incidentally, I have not seen Noonan's article), I believe that they both neglect one key element, namely, that, in order for any enterprise to have even the possibility of engaging in "socially responsible actions," it must have some element of monopoly power. It may have achieved that monopoly power despite free and open competition as was the case with U.S. Steel in the early part of the century, but it must have monopoly power else there are no "excess" profits which it can dispense and dispose of for that purpose. Given that it has monopoly power, it can certainly exploit consumers. If it has monopsony power it can exploit employees. Needless to say, I would not want to rest my case on a world of perfect competition in which all the issues involved become moot. As to case 5, I will say that people who buy shares in a company do so with the full knowledge that a majority vote of the stockholders is expected to be binding on the executives, and hence are willing to accept the decisions of the majority. In a precise extended formulation of my principle, I therefore should include acting in accordance with the wishes of the owners as those wishes are understood and spelled out in the documents that the owners accept in becoming owners.

On page 11 re formulation in 2a, aside from spelling out the "wishes of the owners," the other part of it that I would not accept is the word "unfair." If I were rewriting that, I would say they must engage in open and free competition and refrain from fraud and deception.

On page 13 at the end of the first complete paragraph, I agree with your statement about people who buy stock in a company but I do not agree with the implication you draw. Reducing profits for the sake of social objectives can constitute theft if the company has some monopoly power and if the action is one that the stockholders would disapprove if they knew about it and understood that it was going on. Surely you cannot say that defalcation of funds by executives does not constitute theft because the stock-

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holders have delegated functions to the executives. I regard the rest of this page as "nonsense," the word I wrote in the margin.

On page 15, I agree that corporate executives might have duties to the general public which sometimes outweigh their duties to the shareholders. A proper course of action in those cases is to resign. I do not happen to have a copy of my earlier article here, but I believe that I made the point there--if not, I should have--that individuals have responsibilities that go beyond their responsibilities to the shareholders, and if doing something which is in the shareholders' interest violates their own ethical views, their proper course of action is to resign.

Pages 17 and 18. Your case A is a clear straightforward case of fraud and deception and would not be permissible under my interpretation. The same thing goes for your case B. These are also cases in which an executive has a clear duty to resign his post if he feels it is impossible for him under the circumstances to inform the public.

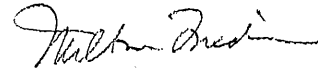
On page 19, you attribute to me the statement that "They have no duty to warn the public about the hazards which they create." Perhaps I have said that, but I am not aware of having done so. I wonder if you can give me the reference. At the bottom of the page, I largely accept your reply 1. I do not think your reply 2 is relevant to the issue.

Re your footnote 26 on page 26, I am not a utilitarian. I do not accept your guess of my ultimate moral principles. I have great difficulty in discussing such things as ultimate moral principles since I believe such discussions lend themselves to an excessive amount of bull. My basic value is human freedom: the right of individuals to be free to do what they wish to do in accordance with their own values and interests so long as they do not interfere with the right of others to do the same. I recognize immediately that that statement is very far from giving an unambiguous rule, and in Capitalism and Freedom I tried to make clear that you could not set forth hard and fast principles; what you had to do was in each case have a balance sheet of costs and benefits in which the major metric was the effect on human freedom. I do not believe that anyone has stated, or that it is possible to state, a simple fundamental moral principle in a few words or lines that will cover every contingency, and that will enable you invariably to say this accords with it and that does not. The world is too complex and our ignorance too profound for such a statement. Indeed, I have argued that the major justification for putting freedom at the top of one's priorities is precisely our ignorance, our humility, the belief that no one of us knows enough to control another individual's actions. Persuasion, yes; coercion, no.

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I appreciate having the opportunity to discuss this with you.

Sincerely yours,



Milton Friedman
Senior Research Fellow

P.S. Incidentally, I have no objection to replacing "he" with "he or she," but I regard it as smart alecky simply to replace the generic "he," meaning person, with "she," which has never had that connotation.

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Stanford, California 94305-6010



December 4, 1992

Professor Thomas L. Carson
Philosophy Department
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Dear Professor Carson:

Thank you for your letter of November 11, 1992. Let me start at the end of your letter. I have always had the view that once a person writes an article or a book it has to live a life of its own, and that he must not regard it as something that he must spend the rest of his life defending. On that ground I have been reluctant to comment on articles about my work or to reply to criticisms of my work in print. I believe that is a policy which has served me very well. I think of some specific examples of economists who have followed a different policy and have ended up doing very little in addition to the work that gave rise to the criticism because they spent so much of their time trying to defend it against attacks or comments. That is why you should write what you wish. I appreciate your not referring to my letter or trying to represent the views which I expressed in the letter. It certainly would be appropriate for me to reply, but I shall not do so.

Those ground rules stated, let me make a few comments on the rest of your letter because this is not a subject to which I want to devote any considerable amount of attention given my other commitments and activities.

On the question of fair versus free, I am enclosing the Newsweek column of July 4, 1977 and the talk which I referred to.

Re your comment at the top of page 2, I do not believe it is possible in any simple theory to draw a bright line distinction, to adopt some words of Bork, between every action which is "right" and/or "wrong." I believe there are many borderline cases. In your next paragraph, I certainly agree that there is an enormous difference between saying that something is morally wrong and saying that it should be illegal. For example, many people who believe that abortion is morally wrong do not believe it should be made illegal. Similarly, I believe it is morally wrong to cheat on your wife, but I do not believe that ought to be made illegal. The cases could be multiplied manyfold.

In re your third complete paragraph on page 2, I believe the problem here is how to interpret the word "profits." It does not mean simply monetary profits, but it is whatever the shareholders regard as the return which

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they get from the business. They may prefer a company which gives them fewer dollars but more actions that they regard as "socially responsible" than one that gives them more dollars. In that case, the management following the wishes of the shareholders are maximizing profits in a sense that is relevant to the shareholders.

On page 3 of your letter, second full paragraph, it is very difficult to say with respect to such a hypothetical case that such a case could never arise. But if it did, it would involve fundamentally a choice between two actions, each of which is immoral: violation of a contract with shareholders on the one hand; violation of what he feels to be his personal responsibility to fellow citizens. Such moral dilemmas do arise all the time. Is it okay for a President to lie to the public in time of war about a military maneuver underway in order to keep it from the enemy?

Re much of your later argument, particularly your utilitarian argument, similarly it would be absurd for me to say that under no circumstances would it ever be permissible to sacrifice a little freedom for a great quantity of some other value. The problem is that, although in principle there can only be one ultimate value, in practice it is very hard to specify that ultimate value in a meaningful way. I am not a utilitarian in the usual interpretation of that sense. I am not a utilitarian because I believe I do not have the right to coerce my fellow citizens to engage in behavior that I regard as yielding greater utility to them and that they themselves may well agree would yield greater utility to them. That is the dilemma that every utilitarian must face. Do you believe that people are free to make mistakes when you know better? As I have often argued, the case for freedom is humility. And yet I cannot deny that there can be special cases.

Truth to tell, talking about a metric of freedom as I do is metaphor, not science. I cannot define a way to assign numbers to different degrees of freedom which I can defend, yet you and I would both agree that as between two situations we can very often be confident that one involves less coercion than the other.

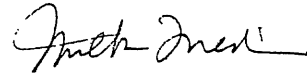
Re your point 3, while I accept minimization of coercion as a sufficient justification of competitive free markets, I also believe as I state in Capitalism and Freedom that if they did not also produce high material well-being they could not exist and could not last. The fact that competitive free markets have many advantages in addition to, or I would rather say as a result of, their capacity to minimize coercion is a major reason why such a system may be acceptable and feasible in practice but in my view does not constitute justification. That is the sense in which I guess I am not a utilitarian.

Incidentally, I wonder if you have read my son's book, The Machinery of

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Freedom. It goes farther in a purely anarchistic direction than I am inclined to go, but not without facing up to the difficulties that such a position involves. In view of your own interests, I think you would find it valuable though I suspect you probably have already read it.

Sincerely yours,



Milton Friedman
Senior Research Fellow

F:v
Encs.