

My Correspondence with Milton Friedman about the Social Responsibilities of Business

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ABSTRACT

In 1992, I sent Milton Friedman a draft of my 1993 paper “Friedman’s Theory of Corporate Social Responsibility.” He and I corresponded at length. My 1993 paper argues that Friedman’s published formulations of his theory are not equivalent and that they prescribe different courses of action in many possible cases. In our correspondence, Friedman conceded that his two formulations of his theory are inconsistent and, at my suggestion, he endorsed a modified version of the view he presented in Capitalism and Freedom as the preferred version of his theory. This modified theory is an important formulation of his position. In one of his letters to me, Friedman writes: “I agree that corporate executives might have duties to the general public which sometimes outweigh their duties to the shareholders.” I argue that this creates major problems for his theory. I also answer Friedman’s published response to one of my criticisms.

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Milton Friedman is the most influential and important defender of the view that corporate executives should aim solely at promoting the interests of shareholders (rather than try to serve the interests of all “stakeholders”). His views have a central place in the literature on business ethics; many people in the field define their views by reference to Friedman’s.¹ Friedman presents his theory in two different publications: *Capitalism and Freedom* and his *New York Times Magazine* article entitled “Social Responsibility of Business.” In *Capitalism and Freedom*, Friedman claims that “the one and only obligation of business is to maximize its profits while engaging in open and free competition without deception or fraud.”² In “Social Responsibility of Business,” he states that the “responsibility [of a corporate executive] is to conduct the business in accordance with their [stockholders’] desires, which will generally be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and in ethical custom.”³

My 1993 article “Friedman’s Theory of Corporate Social Responsibility”⁴ argues that Friedman’s two formulations of his theory are not equivalent and that they prescribe different courses of action in many possible cases. I also argue that we should not assume that Friedman’s later statement of his theory (in “Social Responsibility of Business”) is the definitive statement of his view because Friedman concludes “Social Responsibility of Business” by quoting and endorsing the passage from *Capitalism and Freedom* in which he first formulates his theory. Speaking with reference to what he calls the “doctrine of ‘social responsibility,’” Friedman writes:

It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why in my book Capitalism and Freedom, I have called it a “fundamentally subversive doctrine” in a free society, and have said that in such a society, “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.”⁵

In September, 1992, I sent Friedman a draft of “Friedman’s Theory of Corporate Social Responsibility” with a brief cover letter.⁶ He and I corresponded at length and I revised the paper in light of his comments and corrections. Friedman conceded that the two formulations of his theory are inconsistent and, at my suggestion, he endorsed a modified version of the view he presented in *Capitalism and Freedom* as the preferred version of his theory. (My paper formulated a version of Friedman’s theory which I thought best captures his intentions.)

In my letter to Friedman of November 11, 1992, I suggested that he reply in print to my article once it was published. In his letter to me of December 4, 1992, he said that he would not do this because he wanted to devote himself to writing new work rather than defending work he had already published. He wrote:

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.

He added that he would appreciate it if I did not refer to his letter or the views expressed in his letters to me:

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.

I followed Friedman’s wishes for many years and have never referred to the letters or quoted from them in any of my publications to date. But when approached by Richard Wokutch in 2016 (for Wokutch’s work on “Oral Histories of the Business and Society/SIM Field and the SIM Division of the Academy of Management: Origin Stories from the Founders”⁷), I gave him permission to quote from Friedman’s letters because: (1) Friedman’s stated

reason for not wanting me to refer to the views he expressed in the letters (his unwillingness to spend his time and energy “to comment on articles about my work or to reply to criticisms of my work in print”) no longer exists—Friedman died in 2006. (2) Friedman’s letters to me clarify and *modify* his theory about the social responsibilities of business. He endorses a modified version of his theory that I suggested to him and this modified theory avoids the inconsistency that I note in “Friedman’s Theory of Corporate Social Responsibility.” This modified theory is an important formulation of this view. Friedman’s correspondence with me also sheds light on his ultimate moral principles. (3) Friedman departed from his policy of not responding in print to critics when he responded to one of my criticisms in a letter to Harvey James, Jr. and Farhad Rassekh and gave them permission to quote from his letter to them in their article “Smith, Friedman, and Self-Interest in Ethical Society,” published in *Business Ethics Quarterly* (2000). James and Rassekh claim that Friedman’s letter fully answers my criticisms. I disagree, and I need to quote from Friedman’s letters to me in order to fully answer what he says about my criticism in his letter to James and Rassekh.

In the section entitled “Friedman concedes that the two formulations of his theory are inconsistent,” I quote and explain the passage from Friedman’s letter of October 1992 in which he concedes that the two formulations of his theory are inconsistent. The section entitled “Friedman’s revision of his theory” reconstructs and explains the revised formulation of Friedman’s theory that he endorsed in our correspondence. This is an important and careful statement of his view that avoids the problem of inconsistency and which he thinks is preferable to either of the two published versions of his theory. In our correspondence I asked Friedman about his own basic moral principles. His answers are illuminating; I discuss them in the section entitled “Friedman on his ultimate moral principles.” Roughly, Friedman is a consequentialist who holds that we should weigh the costs and benefits of our actions and act so as to bring about the best possible consequences; he also thinks that, when we are trying to determine what we ought to do, the effects of our actions on human freedom should be our most important consideration. By contrast, some libertarians, such as Robert Nozick, hold that other people’s right to liberty is an absolute side constraint on morally permissible

actions; according to Nozick it is never permissible to violate anyone's right to liberty. Friedman's view implies that it is sometimes permissible to seriously restrict one person's freedom in order to promote a greater amount of freedom overall. In my letter of November 11, 1992, I asked him if it would ever be permissible to sacrifice a little freedom for a great quantity of some other value, for example, happiness. He replied "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." In the section titled "My reply to Friedman's letter to James and Ressekh," I reply to Friedman's letter to James and Rassekh. I also argue that James and Rassekh seriously misinterpret the passage they quote from Friedman's letter to them. The section titled "A new problem about the consistency of Friedman's theory" addresses something that Friedman says in one of his letters to me: "I agree that corporate executives might have duties to the general public which sometimes outweigh their duties to the shareholders." This statement is inconsistent with his theory; it is inconsistent with both of the published versions of his theory and the alternative version he endorses in his letters to me. It is important that Friedman said this in his letter to me. But, even if we discount what he says in his letter to me (since he never said this in print), the problem of conflicting obligations is a very serious problem for Friedman and his theory. Since executives sometimes *do* have conflicting obligations that outweigh their duties to the shareholders,⁸ this is a fatal objection to both of the published versions of his theory and to the revised version that he endorses in his letters to me. Friedman's statement implies that, in practice, business executives should not follow the requirements of the published versions of his theory unless they have no conflicting obligations of comparable importance. This makes the implications of his view unclear in many actual and possible cases. Friedman never in print addressed this issue or acknowledged this possibility. In his letter to me, he says that in cases in which corporate executives have duties to the general public that outweigh their duties to follow the wishes of shareholders, the executives should resign. But I will argue that this view is objectionable in some instances—in some cases fulfilling their more weighty obligations to the public will require that the executives not resign.

FRIEDMAN CONCEDES THAT THE TWO FORMULATIONS OF HIS THEORY ARE INCONSISTENT

In *Capitalism and Freedom*, Friedman claims that “the one and only obligation of business is to maximize its profits while engaging in open and free competition without deception or fraud.”⁹ In “The Social Responsibility of Business,” he states that the “responsibility [of a corporate executive] is to conduct the business in accordance with their [stockholders’] desires, which will generally be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and in ethical custom.”¹⁰

The paper I sent to Friedman in September 1992 presents five cases in which I claimed that the two main versions of Friedman’s theory prescribe incompatible courses of action.¹¹ This article also formulates some modified versions of Friedman’s theory which I think better capture his intentions than either of the two main published versions of this theory.

In his letter to me of October 20, 1992, Friedman did not accept all the things I said about these five cases, but he accepted my general point and wrote:

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 [the two formulations of his theory] you quote.

We should not assume that Friedman’s later statement of his theory (in “Social Responsibility of Business”) is the definitive statement of his view because, as I noted in my introduction, Friedman concludes “Social Responsibility of Business” by quoting and endorsing the passage from *Capitalism and Freedom* in which he first formulates his theory.

FRIEDMAN’S REVISION OF HIS THEORY

Friedman might have opted for one version of his theory over the other. (If he had opted for the view in “Social Responsibility of Business” he would have had to disavow the passage at the end of this article in which he quotes from and endorses his earlier theory in

Capitalism and Freedom). Instead, he says that he endorses a modified version of the view in *Capitalism and Freedom* which I suggested to him. Immediately after the passage in which he admits that he “cannot deny that there is an apparent inconsistency between the two statements you quote,” he wrote:

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.

My 2a (from the paper I sent to Friedman in September 1992) reads as follows:

2a. The one and only obligation of business is to act in accordance with the wishes of shareholders while engaging in fair competition without deception or fraud.

As Friedman notes in his letter of October 20, 1992, my 2a is defective as an interpretation of his theory because I carelessly paraphrased his words “engaging in open and free competition” as “engaging in fair competition.”¹² In his letter of October 20, 1992, Friedman says that his preferred version of his theory is the result of taking the theory from Capitalism and Freedom and replacing the phrase “increase its profits” with “acts in accordance with the wishes of the owners.” This gives us the following revised version of his theory:

The one and only obligation of business is to act in accordance with the wishes of the owners (shareholders) while engaging in open and free competition without deception or fraud.

Friedman’s same letter to me clarifies what he means by “following the wishes of shareholders” in the following sentence:

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.

So, Friedman's letter to me of October 20, 1992 endorses the following revised version of his theory:

MF. The one and only obligation of business is to act in accordance with the wishes of the owners or shareholders (as those wishes are understood and spelled out in the documents that the owners accept in becoming owners) while engaging in open and free competition without deception or fraud.

When Friedman talks about the "obligation of business" we should take him to be talking about the obligations of *business executives* who have the authority to set the policies of businesses. In 1972 he said that "the only entities who can have responsibilities are individuals, a business cannot have responsibilities"¹³ and there is no reason to think that he ever changed his mind about this. With this qualification, his theory reads as follows:

MF1. The one and only obligation of business executives who have the authority to set the policies of the corporations they manage is to act in accordance with the wishes of the owners or shareholders (as those wishes are understood and spelled out in the documents that the owners accept in becoming owners) while engaging in open and free competition without deception or fraud.

Note that MF and MF1 say nothing about the responsibilities of individual proprietors who own the businesses that they manage.¹⁴ Friedman objects very strongly to executives who spend "other people's money" to support social causes that they care about.¹⁵ In his 1972 interview in *Business and Society*, he says that this is tantamount to stealing:

Getting back to this question of corporate responsibility, let's say an executive could get away with donating half the company's income for social purposes? He is in effect stealing [my emphasis] this money from shareholders and devoting it to purposes he regards as desirable.¹⁶

However, he thinks that cases involving individual proprietors are different:

The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his "social responsibility," he is spending his own

money, not someone else's. If he wishes to spend his money on such purposes, that is his right, and I cannot see that there is any objection to his doing so.¹⁷

MF and MF1 are important and carefully thought out statements of Friedman's theory. It is significant that Friedman followed my suggestion to replace the "increase its profits" with "acts in accordance with the wishes of the owners." MF and MF1 imply that if the owners of a corporation instructed managers to limit their profits in order to promote ends other than their own enrichment, then managers should follow those instructions. It is also notable that in his preferred formulation (MF/MF1) he leaves out the duty to obey law and social customs of one's society that are parts of his theory in "Social Responsibility of Business." I persuaded him that the theory in "Social Responsibility of Business" commits him to saying things that he does not want to say. Here is the case that convinced him of this:

Suppose that the ethical customs of a particular society (S) strictly prohibit employers from dismissing long-term employees except when doing so is necessary in order to avert bankruptcy. But dismissing long-term employees in order to increase profits is not prohibited by the laws of S. X is a large company which operates in society S. X owns a small subsidiary company which runs a very unprofitable factory in a small town. X can easily continue to run the factory without going bankrupt, but closing the factory and dismissing the employees would increase its profits substantially. The workers at this factory do not have skills which would enable the company to transfer them to other facilities. Dismissing these workers is unlikely to gain much attention and this action is unlikely to be widely attributed to the parent company X or bring it much unfavorable publicity. Should the company dismiss the workers?¹⁸

MF, MF1, and the theory defended in *Capitalism and Freedom* would require the company to close down the factory and dismiss the workers in this case. The theory defended in "Social Responsibilities of Business" implies that it would be wrong for the company to do this—these are not the results that Friedman wants for this case. In addition, the rule about following the ethical customs of one's society would open Friedman to objections in cases in which

the ethical customs of a society permit or require immoral business practices, such as slavery, and will yield results contrary to his intentions in many societies whose moral codes prohibit certain competitive business practices.¹⁹

Because Friedman did not want me to quote from his letters, I did not attribute MF or MF1 to him in “Friedman’s Theory of Corporate Social Responsibility.”

FRIEDMAN ON HIS ULTIMATE MORAL PRINCIPLES

In the paper I sent to Friedman in September, 1992, I made some guesses as to Friedman’s ultimate moral principles. He rejected those guesses, but a clear picture of his views emerged from our correspondence. In his letter of October 20, 1992, he wrote:

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 benefits²⁰ in which the major metric was the effect on human freedom.²¹ 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.

Friedman says that when you make decisions “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.” This

commits him to a form of consequentialism which says that we should weigh and balance the costs and benefits of alternative courses of action in order to determine which actions will have the best consequences. So his basic moral principles are consequentialist—he thinks that we should act so as to bring about the best consequences. He also thinks that, when we are trying to determine what we ought to do, the effects of our actions on human freedom should be our most important consideration. He doesn't explain what the other "metrics" (goods and bads to be promoted or minimized) are, nor does he explain how they should be balanced against freedom.

In my letter of November 11, 1992, I asked Friedman the following questions:

You say that the "major metric" for "the balance sheet of costs and benefits" is freedom. Are there other metrics? Would it ever be permissible to sacrifice a little freedom for a great quantity of some other value, e.g., happiness?

In his letter of December 4, 1992, he replied that freedom is not the only good/metric that we should consider; he also said that it is sometimes permissible to sacrifice small amounts of freedom in order to promote (large amounts of) other goods. He wrote "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."

This last statement is important and revealing. Many libertarians, such as Robert Nozick, take the right to freedom/liberty to be an absolute right (or an absolute side-constraint on morally permissible actions). On this view, it would never be right to limit someone's freedom (or someone's right to liberty) in order to bring about a greater freedom for others. This clearly is not Friedman's view. His view sometimes permits restricting someone's freedom in order to bring about a greater amount of freedom overall or to promote values other than freedom. Not only does Friedman think that it is permissible to limit some people's freedom to promote greater freedom overall, he thinks that sometimes it is appropriate to make small restrictions on freedom to promote a great quantity of some other value.

Here one might object that my calling Friedman a consequentialist flies in the face of his explicit denial that he is a utilitarian. This

objection assumes that he takes the terms “utilitarianism” and “consequentialism,” to be synonymous. But Friedman clearly does not take these words to mean the same thing. Let me explain. Some people do take the words “utilitarianism” and “consequentialism” to be synonymous. But another widely used terminology, which both Friedman and I employ, distinguishes between: (1) consequentialism—the view that we should always act so as to produce the best consequences overall, and (2) utilitarianism—the view that we should act so as to produce the best consequences *and* that the only consequences that matter are those that promote or diminish human happiness or welfare. According to this terminology (which Friedman seems to employ), all utilitarians are consequentialists but not all consequentialists are utilitarians. (Roughly speaking, utilitarians are consequentialists who think that the only intrinsic good that we should maximize is happiness or human welfare.) Friedman is not a utilitarian in Mill’s sense—he does not think that the ultimate moral principle is to maximize happiness or welfare. But he is a consequentialist—he thinks that we should make decisions on the basis of a “balance sheet” that weighs “cost and benefits” (good and bad consequences). Finally, Friedman calls himself a “consequentialist libertarian” in his February 10, 1999 interview with Peter Robinson.²² In this interview, Friedman contrasts his consequentialist libertarianism with what he calls Ayn Rand’s “more extreme version of libertarianism” which holds that “it is [always?] immoral to initiate force on anyone else.” Although this interview was conducted long after he wrote his letters to me, what he says in his interview with Robinson does not supercede or conflict with the details of what he says in his letters to me. In his interview with Robinson, he does not talk about fundamental moral principles, nor does he consider the possibility of sacrificing a small amount of freedom for the sake of promoting other goods.

Although he does not say anything about this in his letters to me or his interview with Robinson, Friedman takes very seriously the fiduciary (contractual) obligations of business executives to act as agents for the shareholders and follow their wishes. His moral principles seem to include strong obligations to fulfill such fiduciary obligations. In “The Social Responsibility of Business” he writes:

a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires (p. 178).

In his interview in *Business and Society*, he talks about corporate executives and says:

His job is to do whatever the shareholders would like to see done, and most of the time shareholders want only to make money.²³

I think that Friedman's view that "a precise extended formulation" of his theory must refer to "the documents that the owners accept in becoming the owners," rests in part on his view that managers are obligated to honor the rights and prerogatives that those documents grant to the owners. His sharp distinction between the obligations of executives who work for others and the obligations of individual proprietors (see the section titled "Friedman's revision of his theory") also underscores the central importance he attaches to the obligations that executives have when they act as agents for the owners of corporations.

MY REPLY TO FRIEDMAN'S LETTER TO JAMES AND RASSEKH

Friedman's letter of October 20, 1992 speaks to the following two cases from my "Friedman's Theory of Corporate Social Responsibility":

Case A. The Bland Corporation produces a previously unknown chemical XYZ as a by-product of its manufacturing process. Bland discharges large quantities of XYZ into the environment. Internal company data on the health of workers and local residents indicates that exposure to XYZ greatly increases one's risk of cancer and birth defects. The company can continue the process for many years without significant chance of the problem's becoming public knowledge and thereby causing adverse consequences to the company such as law suits or unfavorable publicity. The company cannot eliminate serious health risks for its workers and the general public without greatly increasing its costs and badly undermining its competitive position. Bland's competitors are also exposing the public to XYZ, but they are better equipped to

solve the problem and would gain a competitive advantage over Bland should the problem become known and become the subject of legislation. Any government regulation of XYZ would be harmful to Bland's competitive position. Therefore, it would not be in Bland's interest to notify the public of the problem.

Case B. A company is marketing a very profitable product. The company has reason to believe that the product poses significant health risks to consumers. The product cannot be modified to substantially reduce these risks. The causal connection between the product and the health risks is clear only in the light of confidential information possessed by the company and therefore is unlikely to become known or cause problems for the company. (Since the risks are not generally known, no laws have been enacted to restrict or prohibit the marketing of the product.) The company stands to lose most of its profits from the product if these dangers are revealed.²⁴

Friedman says that the theory he defends in *Capitalism and Freedom* does not imply that the president of the company should fail to warn the public in this case, because (he thinks) to do so would constitute fraud and deception. I strongly disagree with this and think that Friedman stretches the words "fraud" and "deception" beyond recognition (see below).

In "Friedman's Theory of Corporate Social Responsibility," I claim that both published versions of Friedman's theory would permit businesses to subject the public to serious hazards without providing any warning in these cases. I also argue that Friedman's theory needs to be modified by adding an explicit requirement that businesses warn their employees and the general public about all the health and safety risks that the businesses expose them to (even if the law does not require that they give such warning). I claimed that the following is preferable to both of Friedman's published versions of his theory:

M. The one and only social (moral) responsibility of corporate executives is to act in accordance with the wishes of the owners provided that they: 1) obey the law, 2) engage in open and free competition, 3) refrain from fraud and deception, and 4) warn the public about all serious²⁵ hazards or dangers created by the firms which they represent.²⁶

I think that M is preferable to MF and MF1 and both of the published versions of Friedman's theory.²⁷

Without a requirement to warn the public of hazards, Friedman's preferred formulation of his theory implies that, at least in some cases, corporations have no duty to warn the public about serious hazards they create. This consequence is very objectionable. There is no reason to suppose that one's interests are served if one chooses to use products that expose one to dangers of which one is unaware. Similarly, there is no reason to think that one's welfare is promoted if one chooses to work in a place of business where one is exposed to hazards without one's knowledge. A business is obligated to warn its employees and the public of any serious dangers to which it exposes them.

Government warnings and legislation are not adequate substitutes for disclosure of hazards by businesses themselves. There is a "lag" between the time when corporations become aware of dangers or hazards and the time when the government enacts laws to protect the public.²⁸ Because of this time lag, corporations must do more than simply obey the law. At the very least, they must notify the general public about the hazards in question. It would clearly be beneficial to society if corporations provided the kind of information in question. Among other things, this would help to hasten the enactment of needed legislation.

Harvey James, Jr. and Farhad Rassekh argue that my proposed constraint is unnecessary because Friedman's theory does not have the consequences that I claim it has for these cases. They report their correspondence with Milton Friedman on this matter. They asked him to consider the following case which they attribute to me:

Suppose that a company president comes to the realization that the firm's manufacturing operations, and those of competitors, discharge a harmful pollutant, and the pollutant is not subject to the country's environmental regulations.²⁹

Friedman replied to them saying that if he were the president of the company:

[he] would be very unwilling to continue running the enterprise as [he] had before without that information being made

available. . . . [The] appropriate course of action is to make publically available the information.³⁰

In his October 20, 1992 letter to me, Friedman writes: “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.”

Friedman’s letters to me and James and Ressekh settle nothing about what *the published statements of his theory* do and do not *imply*. Friedman *wants* to agree with me that executives should notify the public of the hazards in such cases. However, without adding a further constraint of the sort that I have proposed, he cannot consistently say this. Friedman’s prohibitions against deception and fraud do not require that executives warn the public about hazards their companies create. Deception involves intentionally *causing* someone to have false beliefs—withholding information (failing to provide someone with true beliefs or failing to correct their false beliefs) is not ordinarily a case of deception.³¹ *Webster’s New World Dictionary*, 3d College Edition,³² defines fraud as deception or a specific kind of deception: “deceit, trickery, deception,” “intentional deception to cause a person to give up property or some lawful right.” So, withholding information about hazards is not fraud either. Since Friedman does not offer any explanation of what he means by “fraud” and “deception,” we need to fall back on the ordinary meaning of these words to interpret his theory. In the ordinary sense of “deception” and “fraud,” failing to warn the public about the dangers of what one does is not a case of deception or fraud; rather it is a case of withholding information.

James and Rassekh misinterpret Friedman’s letter to them. As his letter to me of October 20, 1992 makes clear, Friedman does not regard my case as one in which it is impermissible to follow the wishes of shareholders while avoiding fraud and deception and engaging in open and free competition. But James and Rassekh say that Friedman regards my case as one in which an executive’s duty to follow the wishes of shareholders while avoiding fraud and deception and engaging in open and free competition conflicts with and is outweighed by their obligation not to harm others. That interpretation is mistaken for reasons just given and given below in

the next section. Like Friedman, James and Rassekh try to graft their intuitions about my case onto Friedman's stated theory. But the plain fact is that Friedman's published theory says nothing about avoiding harm to others.

A NEW PROBLEM ABOUT THE CONSISTENCY OF FRIEDMAN'S THEORY

Friedman's endorsement of MF/MF1 resolves the problems about consistency that I raise in "Friedman's Theory of Corporate Social Responsibility." However, his letter of October 20, 1992 raises a different problem about the consistency of his theory. Friedman writes:

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.

This flatly contradicts his statement that "the *one and only obligation* [my emphasis] of business is to maximize its profits while..." Since executives sometimes *do* have conflicting obligations that outweigh their duties to the shareholders (surely an executive's obligation to prevent people from being subjected to fatal toxins without their knowledge or consent outweighs the executive's obligation to follow the wishes of shareholders), this is a fatal objection to both of the published versions of his theory and to MF and MF1 (none of these four theories imply that there is any duty to warn or protect the public). But there is a way to further modify Friedman's theory to make it consistent with his view that "executives might have duties to the general public which sometimes outweigh their duties to the shareholders." He could say that, in virtue of their position as agents of the owners, business executives have the obligation to "act in accordance with the wishes of the owners or shareholders (as those wishes are understood and spelled out in the documents that the owners accept in becoming owners) while engaging in open and free competition without deception or fraud," but that this obligation can sometimes be overridden by weightier conflicting obligations.

Friedman recognizes that executives have many different moral duties (he says this explicitly in "Social Responsibility of Business."³³ But *never in print* does he acknowledge that these other duties can sometimes *conflict with* and *override* their duties to act in accordance with the wishes of the shareholders. This is a very major qualification of his theory. It implies that, in practice, we cannot use either of the published versions of Friedman's theory to determine what executives ought to do without first determining whether they have any conflicting obligations of equal or greater importance. This makes the implications of his theory unclear in many actual and possible cases. Friedman has never in print spoken to this issue or said how conflicting obligations should be weighed in such cases.

In his letter to me of October 20, 1992, Friedman says that in cases in which corporate executives have duties to the general public which outweigh their duties to follow the wishes of shareholders, the executives should resign. The rationale for this is clear. Once a person has resigned her position, she might be in the position to fulfill those other duties without violating her obligations to act as the agent of the shareholders. But I see no reason to think that resigning is always the right thing to do in such cases. Consider cases in which an executive's duty to protect the public from harmful actions by her company outweighs her obligation to follow the wishes of shareholders. In some such cases, the executive will not be able to fulfill her duties to protect the public by resigning because, once she resigns, she will no longer have the power to prevent the harmful actions in question. In some cases like this, the person who replaces her if she resigns will just go ahead and take the very harmful course of action. There could be cases in which an executive can prevent many deaths but only by remaining in her/his position.

Here, one might object that my finding that Friedman thinks that business executives have moral duties that can sometimes *conflict with* and *override* their duties to act in accordance with the wishes of the shareholders is nothing new because James and Rassekh claimed this in their in 2000 paper discussed above in my reply to Friedman's letter to James and Rassekh. James and Rassekh do indeed *claim* that Friedman says that businesses/business executives sometimes have duties that conflict with and supercede their duty to follow the wishes of shareholders. They claim that he

says this in *Capitalism and Freedom* and “Social Responsibility of Business.”³⁴ But the James and Rassekh paper does not give any sound textual evidence from Friedman’s published work for this interpretation of him. A careful check of all the passages from Friedman’s published writings that James and Rassekh cite in support of their claim that Friedman holds that businesses/business executives have duties that conflict with and supercede their duty to follow the wishes of shareholders shows that Friedman clearly does not say this or anything that implies this in any of those passages. At one point, they quote Friedman out of context when the longer passage from Friedman clearly conflicts with their interpretation of him.

Let me turn to the textual evidence that James and Rassekh provide for their interpretation of Friedman. They point to passages in Chapter 2 of *Capitalism and Freedom* in which Friedman talks about necessary restrictions on freedom, including restrictions on my freedom to move my fist. In this chapter, “The Role of Government in a Free Society,” Friedman does not address the moral obligations of individuals or businesses, but only the proper scope of laws that limit the freedom of individuals. He thinks that laws limiting my freedom to move my fist and limiting my freedom to produce bad neighborhood effects are justified. Contrary to what James and Rassekh say, nowhere on pages 31, 32, 33, or 119 of *Capitalism and Freedom* does Friedman say anything about the ethical obligations of individuals or corporations.³⁵ Friedman says that harms to others such as bad neighborhood effects justify laws restricting our freedom, but he says nothing about the issue that I raise: the obligations of businesses and business executives in cases in which adequate environmental laws do not exist. James and Rassekh say that Friedman says individuals must be informed about and compensated for bad neighborhood effects.³⁶ (They seem to imply that Friedman thinks that it falls to businesses or business executives to do this.) But Friedman says nothing about what businesses or business executives should do in the following passage which James and Rassekh quote in support of this interpretation:

the man who pollutes a stream in effect is forcing others to exchange good water for bad. These others might be willing to make the exchange for a price. But it is not feasible for them,

acting individually to avoid the exchange or to enforce appropriate compensation.³⁷

This is made clear by the two sentences that precede this passage. In those two sentences, Friedman says that in cases of pollution (bad neighborhood effects), voluntary exchange is impossible (and government action is necessary). Again, Friedman is only talking about what kinds of laws are justified.

According to James and Rassekh, Friedman holds that actions of businesses that “impose involuntarily harms on others are unacceptable.”³⁸ They offer no textual support for this claim which clearly conflicts with other things that Friedman believes. My business competitor who puts me out of business by selling better products at a lower price certainly affects me and harms me (in the sense of making me much worse off), but Friedman thinks that what such a competitor does is morally permissible.

James and Rassekh say that, according to Friedman, if the actions of businesses harm some people, then those people:

must agree to be affected (through compensation or some other process, for instance). Otherwise [James and Rassekh quote from Friedman’s “Social Responsibility of Business”], “what it amounts to is an assertion that those who favor the taxes and expenditures in question have failed to persuade a majority of their fellow citizens to be of like mind and that they are seeking to attain by undemocratic procedures what they cannot attain by democratic procedures.”³⁹

But the passage in question from “Social Responsibility of Business” does not advocate that businesses should sometimes reduce profits in order to avoid harming others. Rather, *and very much to the contrary*, this passage attacks the view that corporations should voluntarily limit their profits for the good of society. James and Rassekh quote this passage out of context. The larger passage from “Social Responsibility of Business” clearly conflicts with their interpretation of Friedman. Here is this the larger passage in question:

Many a reader who has followed the argument this far may be tempted to remonstrate that it is all well and good to speak of Government’s having the responsibility to impose taxes and determine expenditures for such “social” purposes as

controlling pollution or training the hard-core unemployed, but that the problems are too urgent to wait on the slow course of political processes, that the exercise of social responsibility by businessmen is a quicker and surer way to solve pressing current problems.

Aside from the question of fact—I share Adam Smith’s skepticism about the benefits that can be expected from “those who affected to trade for the public good”—this argument must be rejected on grounds of principle.

What it amounts to is an assertion that those who favor the taxes and expenditures in question have failed to persuade a majority of their fellow citizens to be of like mind and that they are seeking to attain by undemocratic procedures what they cannot attain by democratic procedures. In a free society, it is hard for “evil” people to do “evil,” especially since one man’s good is another’s evil.

I have, for simplicity, concentrated on the special case of the corporate executive, except only for the brief digression on trade unions. But precisely the same argument applies to the newer phenomenon of calling upon stockholders to require corporations to exercise social responsibility (the recent GM crusade for example).

In most of these cases, what is in effect involved is some stockholders trying to get other stockholders (or customers or employees) to contribute against their will to “social” causes favored by the activists. Insofar as they succeed, they are again imposing taxes and spending the proceeds.⁴⁰

In these five paragraphs Friedman is saying that corporations should *not* voluntarily reduce their profits (or returns to shareholders) in order to address social problems such as environmental pollution. He says that addressing environmental problems is properly the function of government and that how environmental issues are addressed should be determined by democratic political processes.

CONCLUSION

Friedman’s letters to me shed light on his ultimate moral principles. He is a consequentialist who thinks that the primary good to

be considered when weighing the costs and benefits of possible courses of action is freedom. By contrast, some libertarians, such as Robert Nozick, hold that other people's right to liberty is an absolute side constraint on morally permissible actions. Friedman's view implies that it is sometimes permissible to seriously restrict one person's freedom in order to promote a greater amount of freedom overall and he even says that it is sometimes permissible to sacrifice small amounts of freedom in order to promote (large amounts of) other goods. He says that "it would be absurd" for him "to say that under no circumstances would it ever be permissible to sacrifice a little freedom for a great quantity of some other value."

In his correspondence with me, Friedman acknowledges that his two published statements of his theory about the social responsibilities of business are inconsistent for the reasons I give in "Friedman's Theory of Corporate Social Responsibility." Following a suggestion from me, he endorses the following revised version of his theory:

MF. The one and only obligation of business is to act in accordance with the wishes of the owners or shareholders (as those wishes are understood and spelled out in the documents that the owners accept in becoming owners) while engaging in open and free competition without deception or fraud.

MF is an important and careful statement of Friedman's theory and it is more consistent with his intentions than either of the two published versions of his theory.⁴¹ However, in light of Friedman's long-standing view that only individuals, not corporations, can be moral agents, the following formulation better captures his intentions and his final views:

MF1. The one and only obligation of business executives who have the authority to set the policies of the corporations they manage is to act in accordance with the wishes of the owners or shareholders (as those wishes are understood and spelled out in the documents that the owners accept in becoming owners) while engaging in open and free competition without deception or fraud.

Friedman's endorsement of MF/MF1 resolves the problems about consistency that I raise in "Friedman's Theory of Corporate Social

Responsibility.” However, Friedman’s letter to me of October 20, 1992 raises a different problem about the consistency of his theory. In that letter, he says that “corporate executives might have duties to the general public that sometimes outweigh their duties to the shareholders.” This flatly contradicts his statement that “the one and only obligation of business is to maximize its profits while...” It is inconsistent with all of the published versions of his theory and to MF and MF1. Because executive sometimes *do* have more important obligations that conflict with their obligation to follow the wishes of the owners, the existence of conflicting obligations is a fatal objection to both the published versions of his theory and to MF and MF1, which do not allow for this possibility. Friedman’s statement that “executives might have duties to the general public which sometimes outweigh their duties to the shareholders” represents a major qualification of his theory. It implies that, in practice, executives should not follow Friedman’s injunction to “follow the wishes of shareholders, while avoid fraud and deception...” without first determining whether they have any conflicting obligations of equal or greater importance. This makes the implications of his theory unclear in many actual and possible cases. Friedman never in print addressed this issue or acknowledged this possibility. In his letter to me, he says that in cases in which corporate executives have duties to the general public which outweigh their duties to follow the wishes of shareholders, the executives should resign. But, for reasons given in the last section of the paper, this is objectionable in some cases—in some cases fulfilling their more weighty obligations to the public will require that executives not resign.

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NOTES

1. For a very helpful discussion Friedman's influence on business ethics, see Alexei Marcoux's "The power and the limits of Milton Friedman's arguments against corporate social responsibility," in *Wealth, Commerce, and Philosophy: Foundational Thinkers in Business Ethics*, eds. Eugene Heath and Byron Kaldis (Chicago: University of Chicago Press, 2017), 359–80; also see William Ruger, *Milton Friedman* (New York: Bloomsbury, 2013), 101–02 and 147–54.

2. Chicago: University of Chicago Press, 1962, 133.

3. In *An Economist's Protest* (Thomas Horton, 1972), 178. Friedman's article first appeared in the *New York Times Magazine*, September 13, 1970.

4. *Business and Professional Ethics Journal* 12 (1993): 3–32.

5. Social Responsibility of Business, 184.

6. Friedman sent me a letter dated October 20, 1992. I wrote back to Friedman on November 11, 1992 and Friedman replied to me on December 4, 1992. Our correspondence ended with Friedman's second letter.

7. With John F. Steiner, Sandra Waddock, and Mary J. Mallott, *Business and Society* (2017): 1–210. Wokutch et al. didn't end up quoting from Friedman's letters to me, but Wokutch's request prompted me to write this paper and bring my correspondence with Friedman to light.

8. In some cases their duty to protect the lives and health of the public outweighs their duty to follow the wishes of shareholders—"My reply to Friedman's letter to James and Ressek" Section presents examples of this.

9. Chicago: University of Chicago Press (1962): 133.

10. In *An Economist's Protest* (Thomas Horton, 1972), 178. Friedman's article first appeared in the *New York Times Magazine*, September 13, 1970.

11. These same five cases appear without revisions in the published version of "Friedman's Theory of Corporate Social Responsibility."

12. In his letter of October 20, 1992, Friedman wrote "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."

13. "Milton Friedman Responds," *Business and Society* 1 (1972): 6. Also see "The Social Responsibility of Business," 178.

14. Cf. "Social Responsibility of Business," 178.

15. "Social Responsibility of Business," 179.
16. "Milton Friedman Responds," 8.
17. "Social Responsibility of Business," 182.
18. This is case 3 in "Friedman's Theory of Corporate Social Responsibility," 8.
19. For more on this point, see my "Friedman's Theory of Corporate Social Responsibility," 9. I think that it was a mistake for Friedman to drop the requirement that executives obey the law, but I won't attempt to show this here.
20. Note his reference to making decisions on the basis of their of costs of and benefits—this clearly suggests that he is a consequentialist.
21. I have searched in vain for a passage in *Capitalism and Freedom* in which Friedman describes freedom as a metric or factor that should be weighed in a calculation of costs and benefits.
22. "Take it to the Limits: Milton Friedman on Libertarianism," <http://www.hoover.org/research/take-it-limits-milton-friedman-libertarianism>.
23. "Milton Friedman Responds," 8.
24. See "Friedman's Theory of Corporate Social Responsibility," 17.
25. "Serious" is a 'weasel word' which I will not attempt to explicate here. Clearly M needs to be clarified much further in order to be a principle that can be applied to real cases. In particular, we need to ask how great and how likely the danger must be in order for corporations to have a duty to inform the public of potential dangers.
26. Quoted from "Friedman's Theory of Corporate Social Responsibility," 20–1.
27. But I do not personally endorse M.
28. On this point, see Christopher Stone, *Where the Law Ends* (New York: Harper and Row, 1975), 93–110.
29. "Smith, Friedman, and Self-Interest in Ethical Society," *Business Ethics Quarterly*, 10 (2000): 659.
30. I quote this exactly as it is presented by James and Rassekh, "Smith, Friedman, and Self-Interest in Ethical Society," 671.
31. On this point, see my *Lying and Deception: Theory and Practice* (Oxford: Oxford University Press, 2010), 55–57.
32. New York, 1988.
33. "Social Responsibility of Business," 178.
34. "Smith, Friedman, and Self-Interest in Ethical Society," 662 and 667–70.
35. "Smith, Friedman, and Self-Interest in Ethical Society," 667.
36. "Smith, Friedman, and Self-Interest in Ethical Society," 668.

37. *Capitalism and Freedom*, 30.
38. "Smith, Friedman, and Self-Interest in Ethical Society," 668.
39. "Smith, Friedman, and Self-Interest in Ethical Society," 668–69.
40. "The Social Responsibility of Business," 181.
41. MF has some claim to being called the "final" version of his theory, since he never gave a complete statement of his theory in any of his publications after 1970. But I will not insist on this point.