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ARTICLE

The Intellectual History of Milton Friedman's Criticism of Corporate Social Responsibility

David Chan Smith

Department of History, Wilfrid Laurier University
Email: dasmith@wlu.ca

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This article is the first to reconstruct the intellectual history of Milton Friedman's criticism of business and its social responsibilities. Using original archival research and printed evidence, this article makes three major arguments. First, Friedman's criticisms of business and its social responsibilities evolved over time and emerged from persistent anxieties among economic liberals about monopoly, business interests, and political authority that were explicitly read from Adam Smith. Second, the article contributes to the emerging intellectual history of corporate social responsibility (CSR) by reconstructing the development of Friedman's criticisms, their transformations, and their reception within the context of American managerial thought from the 1950s to the 1980s. Finally, contextualizing Friedman's criticisms demonstrates his concern about decision-making logics within organizations, which in turn explains his belief that CSR would contribute to collectivization and enhances the understanding of neoliberal political thought.

> … there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits …[1]

Despite its enduring influence there has been no attempt to reconstruct the history of Milton Friedman's (1912–2006) controversial criticisms of business and its social responsibilities.[2] Yet, as he once observed, his article in the *New York Times Magazine* (1970) "seems to have retained an almost complete monopoly in the field."[3] Generations of management classes continue to debate the article even as critics charge him with "fallacies," and describe him as "naïve," even a "villain."

[1]Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *New York Times Magazine*, 13 Sept. 1970, 126; Friedman, *Capitalism and Freedom* (Chicago, 1962), 133.

[2]Even his most recent biographer only touches on CSR briefly. Jennifer Burns, *Milton Friedman: The Last Conservative* (New York, 2023), 474.

[3]"Friedman to Roger Beck," 30 June 1994, Hoover Institution Library and Archives (HIA), Milton Friedman Papers, Box 204, Folder 12.

Friedman's intervention has become a key milestone in narratives describing the rise of the shareholder-value movement, the "business case" for corporate social responsibility (CSR), and a neoliberal, pro-business agenda that defanged antitrust enforcement. As Luigi Zingales recently observed, "Whether you love or hate his arguments, Friedman has set the terms of debate for the last 50 years."[4] This article argues for an alternative interpretation of Friedman's critique by reconstructing its intellectual origins in concerns about the influence of business interests and their entanglement with political authority. This perspective places Friedman's ideas within his larger political economy read from Adam Smith and engages the historiography that has cast him as an uncritical proponent of business interests. The article thereby contributes both a timely reconstruction of Friedman's development of his multilayered criticisms, identifies the specific intellectual contexts of their genesis and their continuity with Smithian ideas, and explains how this rereading alters established narratives in the histories of neoliberalism and corporate social responsibility.

Few would associate Friedman and the Chicago school with misgivings about business. Kim Philips-Fein and others have illuminated the linkages between the variety of neoliberal ideas, the advancement of a pro-business agenda, and funding from private foundations and individuals.[5] These investments paid high returns, especially in the 1980s, through deregulation and the creation of an international framework for the movement of capital.[6] Economists and management theorists have assumed that Friedman inspired the turn towards shareholder value in the 1980s, during which managers prioritized maximizing shareholder returns over the interests of other stakeholders.[7] In keeping with this perception of the alliance between business and neoliberal intellectuals, Naomi Klein, for example, has written that Friedman's "vision coincided precisely with the interests of large

[4]Luigi Zingales, "Friedman's Principle, 50 Years Later," in Luigi Zingales, Jana Kasperkevic, and Asher Schechter, eds., *Milton Friedman 50 Years Later* (Chicago, 2020), 1. For discussions of Friedman's wide influence see Burns, *Milton Friedman*; Robert A. Cord and J. Daniel Hammond, eds., *Milton Friedman: Contributions to Economics and Public Policy* (Oxford, 2016).

[5]Kim Phillips-Fein, "Business Conservatives and the Mont Pèlerin Society," in Philip Mirowski and Dieter Plehwe, eds., *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective* (Cambridge, MA, 2015), 280–304; Rob van Horn and Philip Mirowski, "The Rise of the Chicago School of Economics and the Birth of Neoliberalism," in ibid., 139–78, at 166–7; Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton, 2012); Angus Burgin, *The Great Persuasion: Reinventing Free Markets since the Depression* (Cambridge, MA, 2012), 172–3; Kim Phillips-Fein, *Invisible Hands: The Businessmen's Crusade against the New Deal* (New York, 2009). However, Friedman pushed back against the editorial intervention of sponsors. See Caroline Jack, "Producing Milton Friedman's *Free to Choose*: How Libertarian Ideology Became Broadcasting Balance," *Journal of Broadcasting & Electronic Media* 62/3 (2018), 522–5.

[6]Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism* (Cambridge, MA, 2018), 5–13; David Harvey, *A Brief History of Neoliberalism* (Oxford and New York, 2007), 19.

[7]Brian Cheffins, "Stop Blaming Milton Friedman!", *Washington University Law Review* 98/6 (2021), 1607–44, at 1614–15; Nicholas Lemann, *Transaction Man: The Rise of the Deal and the Decline of the American Dream* (New York, 2019), 112, 100–221; Gerald F. Davis, *Managed by the Markets: How Finance Reshaped America* (Oxford, 2009); William Lazonick and Mary O'Sullivan, "Maximizing Shareholder Value: A New Ideology for Corporate Governance," *Economy and Society* 29/1 (2000), 14–18.

multinationals, which by nature hunger for vast new unregulated markets."[8] Friedman and the Chicago school's reinterpretation of antitrust is taken as evidence of this project. During the 1950s and 1960s, Aaron Director, Edward Levi, and others at Chicago rejected the premise that monopoly followed inevitably from the economic concentration of giant corporations. They argued that the level of monopolization of the American economy had instead fallen over time and that market forces tended to break up cartels and other private arrangements intended to suppress competition.[9] The law and economics movement took up these arguments to assert that consumer welfare should be the only basis for judicial action on antitrust. These efforts recast large-scale firms from ugly machines that dominated markets through sharp practice and economies of scale to innovative competitors.[10] Friedman and the Chicago school then supposedly dismissed monopoly as "a negligible symptom attributable to ill-functioning ham-fisted activities of government."[11] Large corporations were now justified, as Friedman apparently urged in 1970, in pursuing profits relentlessly at whatever social cost, leading to the growth of concentrated economic power in America.[12]

The emerging scholarship on the history of American corporate social responsibility has also recognized Friedman as an important influence.[13] CSR is broadly defined as those "company activities—voluntary by definition—demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders."[14] Today CSR is the basis of a multibillion-dollar consulting industry and a large academic field.[15] The debate over corporations and their social responsibilities has its own distinct intellectual history with American

[8]Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (New York, 2007), 50, 57; Barry C. Lynn, *Cornered: The New Monopoly Capitalism and the Economics of Destruction* (Hoboken, 2010), 237–8.

[9]Rob van Horn, "Reinventing Monopoly and the Role of Corporations: The Roots of Chicago Law and Economics," in Mirowski and Plehwe, *The Road from Mont Pèlerin*, 216–29.

[10]Ibid., 220; David M. Kotz, *The Rise and Fall of Neoliberal Capitalism* (Cambridge, MA, 2015), 16–22.

[11]Van Horn, "Reinventing Monopoly and the Role of Corporations," 208, 220, 229; Matt Stoller, *Goliath: The 100-Year War between Monopoly Power and Democracy* (New York, 2019), 224–56; Kotz, *The Rise and Fall of Neoliberal Capitalism*, 21–2; Jones, *Masters of the Universe*, 93.

[12]Burns, *Milton Friedman*, 474; Tim Wu, *The Curse of Bigness: Antitrust in the New Gilded Age* (New York, 2018), 72–90; Colin Crouch, *The Strange Non-death of Neo-liberalism* (Cambridge, 2011), 52–70.

[13]Archie Carroll, Kenneth J. Lipartito, James E. Post, and Patricia H. Werhane, *Corporate Responsibility: The American Experience*, ed. Kenneth E. Goodpaster (Cambridge, 2012), 225, 261, 321, 369; Rosamaria C. Moura-Leite and Robert C. Padgett, "Historical Background of Corporate Social Responsibility," *Social Responsibility Journal* 7/4 (2011), 528–39, at 530–31, 534; Richard Marens, "Recovering the Past: Reviving the Legacy of the Early Scholars of Corporate Social Responsibility," *Journal of Management History* 14/1 (2008), 55–72, at 66; Archie Carroll, "Corporate Social Responsibility," *Business & Society* 38/3 (1999), 268–95, at 277.

[14]Marcel van Marrewijk, "Concepts and Definitions of CSR and Corporate Sustainability: Between Agency and Communion," *Journal of Business Ethics* 44/2–3 (2003), 95–105, at 102. A branch of the CSR literature is taken up with defining the concept. See Benedict Sheehy, "Defining CSR: Problems and Solutions," *Journal of Business Ethics* 131/3 (2015), 625–48; Archie B. Carroll, "Corporate Social Responsibility: Evolution of a Definitional Construct," *Business & Society* 38/3 (2016), 268–95.

[15]Andrew Crane, Abigail McWilliams, Dirk Matten, Jeremy Moon, and Donald S. Siegel, *The Oxford Handbook of Corporate Social Responsibility* (Oxford and New York, 2009), 7.

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CSR emerging in the 1950s.[16] Despite an awareness of the changing socioeconomic context of this debate, however, accounts of Friedman's criticism of CSR synchronically and interchangeably focus either on his *New York Times Magazine* article in 1970 or, less frequently, on the discussion in *Capitalism and Freedom* (1962). Within the CSR literature there has been no research contextualizing or explaining Friedman's ideas about American business and its social responsibilities outside his commitment to value maximization, his desire to limit the agency of managers, or his ideological predispositions.[17] The question of the intellectual origins of Friedman's criticisms thus remains open.

Contextualizing their emergence is important because the literature on the history of CSR functions to map the field for contemporary debate.[18] Friedman, ironically, is often identified as the principal source of the leading perspective on CSR among businesspeople. Since Friedman acknowledged that social-responsibility strategies were valid if they could return value to the business, the historiography represents his ideas as a foundation of the "economic" or instrumental perspective on CSR, which has received "wide acceptance" in the business community.[19] In contrast, the "critical perspective" interprets CSR "mainly as a managerial tool and a political discourse aimed at extending the role of markets and the power of the private actors in society."[20] The literature recognizes Friedman's commitment to a strict separation of business from political authority, but attributes this apprehension to his putative belief in a "moral division of labour," which is now the "dominant political assumption" in CSR.[21] This "moral division" assumes

[16]William A. Pettigrew and David Chan Smith, eds., *A History of Socially Responsible Business, c.1600–1950* (New York, 2017).

[17]Christian Stutz, "History in Corporate Social Responsibility: Reviewing and Setting an Agenda," *Business History* 63/2 (2018), 1–30, at 6, 13; Steve Tombs, "The Functions and Dysfunctions of Corporate Social Responsibility," in Grietje Baars and Andre Spicer, eds., *The Corporation* (Cambridge, 2017), 347–59, at 349; Jędrzej George Frynas and Camila Yamahaki, "Corporate Social Responsibility: Review and Roadmap of Theoretical Perspectives," *Business Ethics: A European Review* 25/3 (2016), 258–85, at 271; Peter Fleming and Marc Jones, *The End of Corporate Social Responsibility: Crisis and Critique* (London, 2013), 5; Aurélien Acquier, Jean-Pascal Gond, and Jean Pasquero, "Rediscovering Howard R. Bowen's Legacy: The Unachieved Agenda and Continuing Relevance of Social Responsibilities of the Businessman," *Business and Society* 50/4 (2011), 607–46, at 621; Duane Windsor, "Corporate Social Responsibility: Three Key Approaches," *Journal of Management Studies* 43/1 (2006), 93–114, at 96, 102.

[18]Robert Phillips, Judith Schrempf-Stirling, and Christian Stutz, "The Past, History, and Corporate Social Responsibility," *Journal of Business Ethics* 166/2 (2020), 203–13.

[19]Elisabet Garriga and Domènec Melé, "Corporate Social Responsibility Theories: Mapping the Territory," *Journal of Business Ethics* 53/1–2 (2004), 51–71, at 53; Pasi Heikkurinen and Jukka Mäkinen, "Synthesising Corporate Responsibility on Organisational and Societal Levels of Analysis: An Integrative Perspective," *Journal of Business Ethics* 149/3 (2018), 589–607, at 591; Michael L. Barnett, "The Business Case for Corporate Social Responsibility A Critique and an Indirect Path Forward," *Business and Society* 58/1 (2016), 1–24, at 5; Moura-Leite and Padgett, "Historical Background of Corporate Social Responsibility," 530–31; Archie B. Carroll and Kareem M. Shabana, "The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice," *International Journal of Management Reviews* 12/1 (2010), 85–105, at 88.

[20]Heikkurinen and Mäkinen, "Synthesising Corporate Responsibility," 593; Richard Marens, "What Comes Around: The Early 20th Century American Roots of Legitimating Corporate Social Responsibility," *Organization* 20/3 (2013), 454–76; Ronen Shamir, "The De-radicalization of Corporate Social Responsibility," *Critical Sociology* 30/3 (2004), 670–74.

[21]Heikkurinen and Mäkinen, "Synthesising Corporate Responsibility," 600.

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that "business firms should focus on profit seeking, while the state's role is to take care of issues of public concern."[22] Recent literature on a third perspective, "political CSR" (PCSR), however, has sought to dissolve this boundary by urging that corporations embrace political responsibilities to fill governance gaps and set regulatory norms. This paradigm has, in turn, provoked critical responses about the self-interested motivations of businesses involved in political CSR.[23] The tripartite schema of these perspectives on CSR assumes that Friedman analytically relied on a moral division of labor to separate the political and economic spheres, and underplays the value of his insights into ideas of critical CSR.

Method and arguments

This article uses new archival evidence to explore these problems and reconstruct a diachronic history of Friedman's criticisms of business and social responsibility. Archival evidence is particularly apt for this investigation, since Friedman himself thought that most commentators had misinterpreted his printed arguments.[24] The arguments that emerge are threefold. First, this material demonstrates that Friedman's critique of business and its social responsibilities evolved over time and emerged from wider anxieties among the period's neoliberals about business interests and political authority. Angus Burgin has observed Friedman's misgivings about business, noting that the economist "particularly emphasized his differences with corporate executives," who were often seeking special privileges from legislatures and the government.[25] Though Burgin traces this suspiciousness to Friedman's populist leanings, this article argues that the economist was drawing from a much longer-term classical liberal tradition of misgivings about business interests and social responsibility that European and American liberals reinvigorated during the 1930s.[26] Business interests, they urged, constantly strove to accumulate political influence under the guise of social benefits in order to obtain monopolistic or oligopolistic control of markets. Friedman adapted this idea from Adam Smith, explicitly applying his warning: "I have never known much good done by those who affected to trade for the publick good."[27]

This interpretation of Smith and the suspicion of business interests lay behind Friedman's criticism of CSR, which he believed was a cynical ploy that ultimately

[22]Andreas Georg Scherer, "Theory Assessment and Agenda Setting in Political CSR: A Critical Theory Perspective," *International Journal of Management Reviews* 20/2 (2018), 387–410, at 396; Jukka Mäkinen and Eero Kasanen, "Boundaries between Business and Politics: A Study on the Division of Moral Labor," *Journal of Business Ethics* 134/1 (2016), 103–16.

[23]Cameron Sabadoz and Abraham Singer, "Talk Ain't Cheap: Political CSR and the Challenges of Corporate Deliberation," *Business Ethics Quarterly* 27/2 (2017), 183–211; Glen Whelan, "The Political Perspective of Corporate Social Responsibility: A Critical Research Agenda," *Business Ethics Quarterly* 22/4 (2012), 709–37.

[24]"Friedman to Farhad Rassekh," 1 Dec. 1998, HIA, Milton Friedman Papers, Box 204, Folder 12.

[25]Burgin, *The Great Persuasion*, 194; Thomas Biebricher, *The Political Theory of Neoliberalism* (Stanford, 2019), 258.

[26]Burgin, *The Great Persuasion*, 191–2.

[27]Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. 1 (Indianapolis, 1982), 456.

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led to that bugbear of early neoliberals, collectivization.[28] Towards the end of his life in 2006 Friedman was clear on this score, noting, "It's always been true that business is not a friend of a free market … It's in the self-interest of the business community to get government on its side."[29] For this reason Friedman had repeatedly maintained that "businessmen are the chief enemies and greatest threat to the preservation of free enterprise."[30] During the 1950s and 1960s Friedman applied ideas about monopoly to explore the self-interested tendency of business to use political mechanisms to suppress competition, especially through "regulatory capture." This analysis reveals that concerns about monopoly remained central to Friedman's thinking in ways that the current antitrust literature has obscured. There is also the suggestion of a paradox: while neoliberals are typically associated with pro-business positions, many, including Friedman, had misgivings about business. Restoring this tension provides greater nuance to the interpretation of Friedman's ideas about CSR and to histories of neoliberalism.

Finally, this article argues that Friedman's ideas about business and its social responsibilities did not depend on a moral division of labor, but rather on the decision-making logics that drive businesses. This is most evident from tracing the evolution of his critique. Beginning in the mid-1960s, Friedman expanded his arguments to explore how the pursuit of social responsibility introduced political mechanisms into the internal decision making of the corporation. These forms of "politicization" in which firms made decisions based on political rather than market-based inputs involved a shift in managerial decision making from the market logic of the price mechanism to direction by political considerations. Friedman was concerned not with a "moral division of labour," but with the struggle over two mechanisms or logics of decision making—the political and the market. Highlighting this problem of two logics, as the conclusion will explore, points to Friedman's attentiveness to how institutional influences, rather than firm-specific behaviours, can stimulate socially virtuous decision making within organizations. In this, as in his belief as to why businesses embraced social responsibility, Friedman proved prescient in ways that continue to inform discussions about greenwashing and "woke capitalism."

The classical liberal suspicion of business

The long intellectual history of Friedman's suspicion of business and social responsibility begins with Adam Smith, whose influence on the Chicago school has been debated.[31] Writing in *The Wealth of Nations* (1776) Smith explored the problem of business groups and their anticompetitive instincts: "People of the same trade seldom meet together … but the conversation ends in a conspiracy against the

[28]Ben Jackson, "At the Origins of Neo-liberalism: The Free Economy and the Strong State, 1930–1947," *Historical Journal* 53/1 (2010), 129–51, at 136–7; Biebricher, *The Political Theory of Neoliberalism*, 13.

[29]"An Interview with Milton Friedman" (2006), *EconTalk*, at https://www.econlib.org/library/Columns/y2006/Friedmantranscript.html, accessed 1 Nov. 2022.

[30]"Friedman to George Baker," 24 May 1971, HIA, Milton Friedman Papers, Box 204, Folder 13.

[31]Gary Gerstle, *The Rise and Fall of the Neoliberal Order: America and the World in the Free Market Era* (Oxford, 2022), 6–9; Glory M. Liu, "Rethinking the 'Chicago Smith' Problem: Adam Smith and the Chicago School 1929–1980," *Modern Intellectual History* 17/4 (2020), 1041–68.

publick, or in some contrivance to raise prices."[32] Smith embedded this account about the dubious motives of tradespeople into his larger analysis of the "mercantile system" and the relationship between commercial groups and political influence that restricted markets.[33] Smith detected the source of monopolies and barriers to entry in the actions of business interests working through the state. Living in a world of independent shopkeepers and tradespeople, and before the large industrial corporations of the nineteenth century, Smith rejected the possibility that individuals could long coordinate restrictive commercial combinations in a competitive market.[34] The higher profits arising from such arrangements would attract competitors to contest the monopoly.[35] Instead, Smith explained, business interests acting through the state apparatus were the more dangerous source of anticompetitive privileges such as monopolies, tariffs, and labor controls.[36] When the legislature, for example, incorporated business groups and granted them the authority to make by-laws, this power was often used against competitors and entrants.[37] The trick of these interest groups, as Smith pointed out, was to convince the remainder of the population "that the private interest of a part, and of a subordinate part of the society, is the general interest of the whole."[38]

Though Smith dedicated a large part of *The Wealth of Nations* to a treatment of business, its political influence, and anticompetitive behaviour, the historiography has paid this concern surprisingly little attention.[39] Yet Friedman and other twentieth-century classical liberals absorbed the lessons of Smith's analysis of the relationship between business interests and political power during the 1930s in a process that produced new solutions and new intellectual tools, such as Friedman's criticism of corporate social responsibility in the 1960s. First, they imported Smith's suspicion of business interests into their own economic thinking. Second, Smith's analysis underscored the permeability of the political process by business interests and the ease with which they were able to distract other groups from their own self-dealing. Third, Smith had observed that managers and businesspeople frequently used the pretence of the public interest or social responsibility to mask their anticompetitive strategies operating through the state.

The neoliberal reinterpretation of the Smithian problem in the 1930s

Foundational neoliberal publications, including Walter Eucken's *Die Grundlagen der Nationalökonomie* (1939) and Walter Lippmann's *The Good Society* (1937),

[32]Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 145.

[33]Ibid., 97.

[34]Though Smith also argued that combinations to keep wages low among employers could endure. Ibid., 84.

[35]Adam Smith, *Lectures on Jurisprudence* (Indianapolis, 2010), 363.

[36]Ibid., 82–3; Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 135–6. Jerry Evensky, *Adam Smith's Moral Philosophy: A Historical and Contemporary Perspective on Markets, Law, Ethics, and Culture* (Cambridge), 193–5.

[37]Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 145–6.

[38]Ibid., 144.

[39]Neri Salvadori and Rodolfo Signorino, "Adam Smith on Monopoly Theory: Making Good a Lacuna," *Scottish Journal of Political Economy* 61/2 (2014), 178–95, at 178–9; Heinz D. Kurz, "Adam Smith on Markets, Competition and Violations of Natural Liberty," *Cambridge Journal of Economics* 40/2 (2016), 615–38.

placed concern about business interests and the undermining of competition at the center of their economic analyses. Their diagnoses were grim: the growing use by interest groups, including both business and labor, of political coercion harmed competition and this politicization of decision making was a path towards collectivization. Though agreeing on this problem, the solutions offered by German and American liberals would eventually diverge into dissimilar political economies reflecting their specific historical and national contexts.[40]

While the Freiburg school investigated the problem through a historical analysis of cartelization in Germany, American liberals had a different national perspective.[41] Their intellectual orientation was the debate over the industrial juggernauts that were such a prominent feature of American capitalism from the closing decades of the nineteenth century.[42] The emergence of large integrated companies such as Standard Oil had raised the question of the consequences of that concentration. With the Great Depression and resulting crisis of confidence in capitalism, the problem assumed an acute form. Adolf Berle and Gardiner Means published the best-known analysis during the 1930s and provided elaborate statistical evidence of the growing scale and concentration of corporate power. They described how conditions of competition had changed and that the "principles of duopoly have become more important than those of free competition."[43] Critics under the New Deal, including Berle, urged government intervention to control large-scale firms.[44] Their concerns would culminate in the extensive attempts at economic regulation through the National Recovery Act, antimonopoly prosecutions, and especially the investigation begun by the Temporary Congressional Economic Committee (TNEC) in 1938 into the prevalence of economic concentration in the American economy.[45]

Alongside this apprehension about economic concentration was the belief that business had moved beyond crude pools and cartels to limit competition, and increasingly favored political and legal methods. Walter Lippmann in *The Good Society* explored this problem of business and its political entanglements. The state, according to Lippmann, facilitated the concentration of enterprise power under the influence of business interests. By extending general incorporation to all suitors, governments had erected a corporate system that "lawyers and politicians" constantly tinkered with on behalf of vested interests.[46] After 1870 and the spread of general incorporation, managers, who directed larger and larger

[40]Jackson, "At the Origins of Neo-liberalism," 140–41.

[41]Raphaël Fèvre, *A Political Economy of Power: Ordoliberalism in Context, 1932–1950* (Oxford, 2021), 23–59; Ralf Ptak, "Neoliberalism in Germany," in Mirowski and Plehwe, *The Road from Mont Pèlerin*, 108–16; Viktor Vanberg, *The Constitution of Markets: Essays in Political Economy* (London, 2001), 1–52.

[42]Tony Allan Freyer, *Regulating Big Business: Antitrust in Great Britain and America, 1880 to 1990* (Cambridge, 1992); Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895–1904* (Cambridge, 1985).

[43]Adolf A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (New Brunswick, 1991), 45.

[44]Alan Brinkley, *The End of Reform: New Deal Liberalism in Recession and War* (New York, 1996), 32–42; Colin Gordon, *New Deals: Business, Labor, and Politics in America, 1920–1935* (Cambridge, 1994), 128–203.

[45]David Lynch, *The Concentration of Economic Power* (New York, 1946); Brinkley, *The End of Reform*, 106–35.

[46]Walter Lippmann, *The Good Society*, ed. Gary Dean Best (New Brunswick, 2004), 15.

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corporations, subsequently thought increasingly about capturing the regulatory framework in their favor.[47] Like his German counterparts, Lippmann interpreted the process of economic concentration as anticompetitive and largely political rather than merely about scale. Developments moved slowly yet by their own circular logic. Different business interests corrupted or convinced voters to support preferential measures, such as tariffs.[48] As particular industries or groups gained privileges, so others sought to use the levers of the state as well, resulting in a process of "gradual collectivization" that had accelerated during the New Deal.[49] Lippmann called for the reform of corporate laws and regulation to remove these privileges in favor of greater competition: "I am convinced, that few effective monopolies have ever been organized and that none can long endure except where there is a legal privilege."[50] Friedman and the Chicago school expanded upon this insight in their own analysis of monopolies and the social responsibilities of business, a process that they also believed led to collectivization.

The Chicago school's approach to containing business interests

These two streams of thought in Germany and the United States met at the Colloque Walter Lippmann in 1938 in Paris and then at the first meeting of the Mont Pèlerin Society in 1947. Discussion circled around the question whether large corporations had suppressed market mechanisms by dint of their size or by manipulating political power to eliminate competition.[51] Friedman was present at Mont Pèlerin to hear Friedrich Hayek's opening address to the society in which he urged the restoration of a "competitive order."[52] Hayek opined that many "pretending defenders" of free enterprise "are in fact defenders of privileges and advocates of government activity in their favour." In case his audience was unsure whom he was describing, he continued, "the government supported cartels and agricultural policies of the conservative groups are not different from the proposals for a more far-reaching direction of economic life sponsored by the socialists."[53] Corporate law created by legislators, on this account, had produced the means for both concentration and noncompetition.[54]

While Friedman said little during this discussion, his collaborator at Chicago, Aaron Director, spoke to the problems raised by Hayek.[55] Acknowledging a belief in the decline of competition, Director explained that the proximate cause was the "substantial and increasing amount of state intervention which tends to destroy

[47]Ibid., 47, 119.

[48]Ibid., 112–13.

[49]Ibid., 123–8.

[50]Ibid., 222–3, 280.

[51]Burns, *Milton Friedman*, 179; Jurgen Reinhoudt and Serge Audier, *The Walter Lippmann Colloquium: The Birth of Neo-liberalism* (Basingstoke, 2017), 119–24.

[52]"'Free' Enterprise and Competitive Order," HIA, Mont Pelerin Papers, Box 5, Folder 12, 8. For Friedman's notes (and doodles) on this discussion see HIA, Milton Friedman Papers, Box 87, Folder 9.

[53]"'Free' Enterprise and Competitive Order," 1.

[54]Ibid., 18.

[55]Though early on Friedman seems to have been influenced by these ideas. "Free Enterprise – An American View," HIA, Milton Friedman Papers, Box 41, Folder 2, 1.

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the competitive order."[56] Business interests often drove this intervention and hence "laissez-faire" had been an "incomplete" theory that had also nurtured monopolies. Instead, a renewed liberalism needed to include a "prescription of the role of the state in making private enterprise the equivalent of competitive enterprise" and the "dispersion of power necessary for a competitive order."[57] The problem was how to cut the entanglement of business interests with political power. On this point the German Ordoliberals and the Chicago school parted ways during the 1950s.

The Chicago group believed that the actual level and functioning of monopoly in the American economy was not well understood and was probably overstated.[58] They were not alone: Joseph Schumpeter argued in 1942 that "pure cases of long-run monopoly must be of the rarest occurrence," and followed Smith by noting that they could not endure "unless buttressed by public authority."[59] In his response to TNEC that same year, George Stigler criticized the commission for failing to consider federal support of monopoly and argued that his own survey led "unambiguously to the conclusion that the major factor in the decline of competition has been governmental support of monopoly."[60] Aaron Director explicitly connected his reading of Smith with the problem of political monopoly. During a lecture in 1956, for example, Director observed to his audience that Smith and the classical writers had isolated the causes of durable monopolies to state-granted privileges, believing that competition would dissolve private combinations.[61]

Two empirical studies by Warren Nutter (Chicago) and Fred Weston (UCLA) gathered empirical evidence on the level of monopoly in the US economy and emphasized this distinction.[62] Nutter explicitly focused only on "market" monopoly, which he concluded was exaggerated, as distinguished from "political" monopoly, which referred to "situations which provide a concentration of privileges or advantages."[63] Nutter's investigations informed the Free Market Study (FMS, 1946–52) led by Director at Chicago, out of which emerged the Antitrust Project (1953–7), which received funding and direction from the libertarian Volker Fund. From these groups developed a distinctive Chicago school antimonopoly literature, including Friedman's *Capitalism and Freedom* (1962) and its early discussion of business and its social responsibilities.

These research projects produced two key intellectual shifts during the 1950s. First, the Chicago school eschewed enterprise size or qualitative values such as

[56]"Conference Minutes," HIA, Mont Pelerin Papers, Box 5, III.

[57]Ibid., VI.

[58]Frank H. Knight, "Anthropology and Economics," *Journal of Political Economy* 49/2 (1941), 247–68, at 264.

[59]Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (Florence, 2010), 86–7.

[60]George J. Stigler, "The Extent and Bases of Monopoly," *American Economic Review* 32/2 (1942), 1–22, at 20.

[61]"Claremont Men's College: Institute on Freedom and Competitive Enterprise," Aaron Director Papers, University of Chicago, Box 2, Folder 6, 4–5; an analysis also found in his notes on Smith: "Notes," Box 3, Folder 1, 1; "Notes," Box 3, Folder 12.

[62]J. Fred Weston, *The Role of Mergers in the Growth of Large Firms* (Berkeley, 1953); Eric Hilt, "The 'Berle and Means Corporation' in Historical Perspective," *Seattle University Law Review* 42 (2019), 423–31; Eric Schliesser, "Inventing Paradigms, Monopoly, Methodology, and Mythology at 'Chicago': Nutter, Stigler, and Milton Friedman," *Studies in History and Philosophy of Science* 43/1 (2012), 160–71, at 161, 166.

[63]G. Warren Nutter, *The Extent of Enterprise Monopoly in the United States, 1899–1939* (Chicago, 1951), 4, 10.

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fair competition as the determinants of market monopoly, preferring instead "consumer welfare" or the potential of a firm to command market prices above their natural rate.[64] Second, the FMS and Antitrust Project studies brought into full view the manipulation of government regulation by business interests, a point also made in the other influential study of monopoly of the time by Fritz Machlup. Machlup squarely blamed "short-sighted" legislators who had permitted an expanding array of corporate privileges during the nineteenth century that had produced conditions favoring monopoly.[65] Stigler famously formulated this process as "regulatory capture," which occurred when "regulation is acquired by the industry and is designed and operated principally for its benefit."[66]

While this shift to a consumer welfare test has been taken to suggest that the Chicago school abandoned monopoly as a significant factor in their analysis of the economy, this was not the case.[67] Friedman recognized "political monopoly" as a persistent problem whenever businesses could call government to their assistance and shape the regulatory environment to restrict markets in their favor. Writing in 1950, Friedman argued that although private monopoly was not as prevalent as was assumed, action was still called for, because "monopoly flourishes most when it can get positive support of the government in enforcing restrictive agreements."[68] This insight produced his first published claims about business and its social responsibilities in 1962, which was therefore not surprisingly also about monopoly.

Social responsibility in American management thought

This critique implicitly engaged with the developing literature on social responsibility in American management thought.[69] Efforts to improve corporate behavior had deep roots specific to the American context and can be traced back to the attempts to reframe the "soulless" corporation at the turn of the century.[70] Contemporary advocates justified demands for social responsibility within an evolutionary scheme of a more mature capitalism in which businesspeople increasingly accepted positive duties towards their stakeholders and communities.[71] This was due to the growing

[64]Aaron Director and Edward H. Levi, "Law and the Future: Trade Regulation," *Northwestern University Law Review* 51 (1956–7), 281–96, esp. 282.

[65]Fritz Machlup, *The Political Economy of Monopoly: Business, Labor, and Government Policies* (Baltimore, 1967), 236–49; Hans Birger Thorelli, *The Federal Antitrust Policy: Origination of an American Tradition* (Baltimore, 1954), 65–121.

[66]George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2/1 (1971), 3–21, at 3.

[67]Van Horn, "Reinventing Monopoly and the Role of Corporations," 215–20.

[68]"Free Enterprise in the United States" (1950), HIA, Milton Friedman Papers, Box 42, Folder 12, 7–8; also revised as "The Monopoly in Industry and Agricultural Policy," HIA, Milton Friedman Papers, Box 41, Folder 4, 3.

[69]Christian Christiansen, *Progressive Business: An Intellectual History of the Role of Business in American Society* (Oxford, 2015), 19–53; Carroll *et al.*, *Corporate Responsibility*, 62–123.

[70]Eugene McCarraher, *The Enchantments of Mammon: How Capitalism Became the Religion of Modernity* (Cambridge, MA, 2019), 178–254; Christiansen, *Progressive Business*, 19–53; Carroll *et al.*, *Corporate Responsibility*, 62–123.

[71]Harwood F. Merrill, ed., *The Responsibilities of Business Leadership* (Cambridge, MA, 1948), 6–8; Frank W. Abrams, "Management's Responsibilities in a Complex World," *Harvard Business Review* 29/3

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scale of American businesses and their impact on society, as Charles Henderson explained in 1915: "it is ridiculous to affirm that the business of a huge corporation which affects the health and enjoyments of millions of people is a mere private affair."[72] Claims about social responsibility could also function to bring about greater social legitimacy to fend off challenges from labor and regulators.[73] The mainstreaming of these ideas was evident during the 1920s as business schools began to insist that responsibility and a greater ethical orientation were part and parcel of the professionalization needed to manage the modern corporation. Wallace Donham, dean of Harvard Business School, wrote in 1927, "The development, strengthening and multiplication of socially minded business men is the central problem of business."[74] These claims distinguished the mission of business schools capable of producing "professional" businesspeople who were attentive to the social implications of their activities managing large-scale corporations.[75]

The corporations that these managers ran had also changed. The impact of increasing corporate scale produced what Berle described as a "social organization" that reflected "a concentration of power in the economic field" and an intersection of interests, including consumers, labor, and owners.[76] Although often misidentified as a precursor of shareholder value, Berle and Mean's account in 1932 concluded with a suggestion that large corporations were now increasingly subject to tests of "public benefit."[77] Ultimately, they wrote, the community might demand that corporations should "serve not alone the owners or the control but all of society," a task that Berle later assigned to the government.[78] By 1954 Berle could affirm that managers needed to think of the modern, large corporation as a "political institution."[79] Social responsibility was understood as a consequence of economic concentration. E. Merrick Dodd, Berle's sparring partner during the 1930s, argued that social responsibility followed from enterprise size and corresponding influence —a premise later formulated as the "iron law of social responsibility."[80]

Prominent business leaders during the Great Depression were also advocating for greater social responsibility in partnership with government, a trend that

(1951), 29–34, at 32; Morrell Heald, "Management's Responsibility to Society: The Growth of an Idea," *Business History Review* 31/4 (1957), 375–84, at 379.

[72]Cited in Christiansen, *Progressive Business*, 47.

[73]Rakesh Khurana, *From Higher Aims to Hired Hands: The Social Transformation of American Business Schools and the Unfulfilled Promise of Management as a Profession* (Princeton, 2010), 23–192; Richard C. Hoffman, "Corporate Social Responsibility in the 1920s: An Institutional Perspective," *Journal of Management History* 13/1 (2007), 55–73.

[74]Wallace B. Donham, "The Social Significance of Business," *Harvard Business Review* 5/4 (1927), 406–19, at 406.

[75]Ibid., 411.

[76]Berle and Means, *The Modern Corporation and Private Property*, 309–10.

[77]Ibid., 310. William W. Bratton and Michael L. Wachter, "Tracking Berle's Footsteps: The Trail of the Modern Corporation's Last Chapter," *Seattle University Law Review* 33 (2010), 849–75, at 850; Bratton and Wachter, "Shareholder Primacy's Corporatist Origins: Adolf Berle and 'The Modern Corporation'," *Journal of Corporation Law* 34/1 (2007), 100–51, at 135.

[78]Berle and Means, *The Modern Corporation and Private Property*, 312.

[79]Adolf Berle, *The 20th Century Capitalist Revolution* (New York, 1954), 179, 167–8.

[80]E. Merrick Dodd, "For Whom Are Corporate Managers Trustees?", *Harvard Law Review* 45/7 (1932), 1145–63, at 1151–2, 1157; Keith Davis, "The Case for and against Business Assumption of Social Responsibilities," *Academy of Management Journal* 16/2 (1973), 312–22, at 314.

continued into the postwar period.[81] Gerard Swope, the head of General Electric, proposed the formation of industry associations supervised by the government to control production and stabilize prices in order to respond to the economic depression in 1931. Frank Abrams, the chairman of Standard Oil, explained in 1951 that managers were now professionals whose job was to achieve a "balance among the claims of the various directly interested groups" in their business. This discovery of a "harmonious balance" was in keeping with the corporatist ideas of the period, and, Abrams declared, with the long-term interest of the shareholder who would benefit financially.[82] The "duty" of management to the general public arose from enterprise size and its effect on the community.[83] By 1956 a prominent survey of American management thought could identify two "strands of thinking": the profit-maximizing "classical" and the managerial view. The latter assumed that "professional managers in the large business firm … consciously direct economic forces for the common good."[84]

Significantly, those business leaders championing social responsibility often led very large enterprises with monopolistic histories, including Irving Olds (US Steel), Swope (General Electric), and Abrams (Standard Oil of New Jersey). Contemporary commentators such as Carl Kaysen explicitly drew this link, noting "the wide-ranging scope of responsibility assumed by management," which he attributed to "the possession of a substantial degree of market power [that] is characteristic of the modern corporation, and, indeed, a necessary condition for the display of its characteristic behavior." This was because substantial and steady profits "make possible a variety of expenditures whose benefits are broad, uncertain, and distant; the enterprise closely constrained by the pressure of market competition does not have that ability."[85] Friedman would also emphasize this disjunction between social responsibility and competitive markets.

Thus when Howard R. Bowen came to summarize the developments of the preceding twenty years in his "landmark" volume in 1953, in which he introduced the term "corporate social responsibility" into the mainstream, he similarly observed the "maturity" of corporate America.[86] Since large enterprises were assured of steady revenues, Bowen reasoned, their professionalized managers could look to considerations other than immediate profits. He observed the presence of "several hundred large corporations" in America whose size and security gave their management tremendous influence and the "luxury of philosophizing."[87] Bowen noted that others sometimes referred to this maturation "less charitably" as "monopoly power."[88]

[81]Christiansen, *Progressive Business*, 60–95; Carroll *et al.*, *Corporate Responsibility*, 195–229.

[82]Abrams, "Management's Responsibilities in a Complex World," 29–30.

[83]Ibid., 32.

[84]Francis X. Sutton, *The American Business Creed* (Cambridge, MA, 1956), 33–4; similarly see Arthur H. Cole, "The Evolving Perspective of Businessmen," *Harvard Business Review* 27/1 (1949), 123–8, at 124; and see the essays by business leaders in Merrill, *The Responsibilities of Business Leadership*.

[85]Carl Kaysen, "The Social Significance of the Modern Corporation," *American Economic Review* 47/2 (1957), 311–19, at 313–15.

[86]Howard R. Bowen, *Social Responsibilities of the Businessman*, ed. Peter Geoffrey Bowen and Jean-Pascal Gond (Iowa City, 2013), 80.

[87]Ibid., 82, 108.

[88]Ibid., 81.

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Critics, especially neoliberals, were quick to warn that corporate social responsibility would politicize corporate decision making and undermine competitive markets. Theodore Levitt at Harvard Business School argued that social responsibility was primarily a tactical defense against criticisms of the corporate system. Yet by compromising the profit motive, it encouraged businesses to a "prodigious currying of political and public favor" and the assumption of governmental functions. This, in turn, threatened to collapse the separation between economic and political power.[89] In fact, these critics noted, many activities that were represented as socially responsible were in the financial interests of stockholders. This begged the question of what kind of corporations could engage in sustained altruism. The answer: only those "not subjected to the pressure of effective market competition … If they do function in the matrix of effective competition, their opportunity to pursue price policies of … 'public welfare' rather than 'profit seeking' will be correspondingly reduced."[90]

Henry Manne, a student of Aaron Director, pointedly made these arguments in the same year as Friedman published *Capitalism and Freedom*.[91] In a broadside against Berle, Manne argued that as business exercised more social responsibility, "greater direct government control of industry would result."[92] Moreover, he assumed that if "corporation sells its product in a very competitive market, it will not be able to engage in substantial non-profit-maximizing activity; if it does attempt such activity, the firm will probably not survive."[93] Corporate altruism could only be explained if "the corporation has achieved some monopoly power, perhaps illegally. Arguably, such non-profit-maximizing activity could even furnish a standard for the measurement of monopoly power."[94] Manne warned that the "greatest danger" posed by "business statesmanship" was "its tendency to make monopoly palatable and thus encourage laws that further restrain the salutary influence of free markets."[95]

While the emerging CSR literature of the period interpreted economic size as generating a managerial duty to pursue social responsibility, its critics turned this relationship on its head. Their response was that social responsibility was either cynical or, if altruistic, evidence of a monopoly position. Large companies stayed large by using social responsibility to defend and expand their economic power by working through government. Social responsibility reflected the suppression of the price mechanism and, with that, the primacy of political rather than market-based logics of decision making that would lead to socialism. Friedman would take up this theme in his writings on CSR.

[89]Theodore Levitt, "The Dangers of Social Responsibility," *Harvard Business Review* 36/5 (1958), 41–50, at 41–2, 47; Eugene Rostow, "To Whom and for What Ends Is Corporate Management Responsible?", in Edward S. Mason, ed., *The Corporation in Modern Society* (Cambridge, MA, 1959), 48–70, at 64, 68.

[90]Rostow, "To Whom and for What Ends Is Corporate Management Responsible?", 70.

[91]Lemann, *Transaction Man*, 110–11.

[92]Henry G. Manne, "The 'Higher Criticism' of the Modern Corporation," *Columbia Law Review* 62/3 (1962), 399–432, at 416.

[93]Ibid.

[94]Ibid., 417.

[95]Ibid., 418.

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Friedman's first critique: business interests, social responsibility, and political authority

Friedman's first challenge to CSR appeared in *Capitalism and Freedom* (1962) and built on the Chicago school's identification of government-supported monopolies as a central problem to be attacked.[96] Early in *Capitalism and Freedom*, Friedman concluded that private monopoly was the "least of the evils."[97] Special interests, he believed, had instead rigged the regulatory game under the guise of social responsibility to create closed markets and defend monopoly power. Thus, in *Capitalism and Freedom*, the chapter dedicated to monopolies is also about the "social responsibility of business and labour." Friedman began by explaining that monopolies arose due to several causes, including patents, or private arrangements such as collusive agreements within industries (oligopolies or cartels), and especially labor unions.[98] His broad definition of monopoly implicitly raised the problem of its source: "Monopoly exists when a specific individual or enterprise has sufficient control over a particular product or service to determine significantly the terms on which other individuals shall have access to it."[99] The extent of the private monopolization of the American economy, however, had been overestimated.[100] Private collusion in business was constantly emerging and searching for sources of leverage to establish monopolies, but such combinations were unstable "unless they can call government to their assistance."[101] And they could. While "direct government" monopoly was limited, in contrast, "The use of government to establish, support and enforce cartel and monopoly arrangements among private producers has grown much more rapidly than direct government monopoly and is currently far more important."[102] Direct and indirect government assistance was "probably the most important source of monopoly power" and included tariffs, tax legislation, and the operation of regulatory agencies.[103] Importantly, particular business interests promoted and sustained this regulation to use political mechanisms to suppress competition.

To illustrate these claims, Friedman focused on federal bureaucracies, including the Interstate Commerce Commission, the Texas Railroad Commission, and the Federal Communications Commission. By capturing these regulators, he argued, businesses corrupted the competitive market mechanism. One of Friedman's favorite examples was the ICC. The ICC was initially intended as a curb on monopolies, but it soon "became an agency whereby the railroads could have even greater monopoly power" by shutting out competition from trucking.[104] Friedman wrote elsewhere that the ICC was a case "where a regulatory agency was established to protect

[96]For the genesis of the book, see Burns, *Milton Friedman*, 251–2.

[97]Friedman, *Capitalism and Freedom*, 28.

[98]Ibid., 28, 121.

[99]Ibid., 120.

[100]Ibid., 121–2.

[101]Ibid., 131.

[102]Ibid., 125–6.

[103]Ibid., 129.

[104]"Economic Policy: Intentions vs. Results," HIA, Milton Friedman Papers, Box 36, Folder 5, 4; and also Friedman, *Capitalism and Freedom*, 29; Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (New York, 1990), 194–201.

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the consumer which ended up exploiting the consumer and served as an instrument whereby the railroads could more effectively foster their own interests."[105]

Friedman proposed in speeches and papers during the 1960s that this inverted relationship between regulators and regulated followed a natural logic: "it is inevitable that the railroads will exert enormous influence over the ICC, the banks over the Federal Reserve, and the producers of automobiles … over the Federal agency to promote automobile safety."[106] Just as Smith had argued, business was particularly adept at such capture since the interests and attention of producers were concentrated, while those of consumer groups were fragmented and distracted. Infiltration and capture were only, after all, in the self-interest of business, as Friedman wryly noted in one paper: "I have no complaint of that, if we are suckers enough to provide them with this kind of a means to improve their own return."[107]

Regulatory capture was performed under the pretense of social responsibility. Friedman concluded his discussion of business and its social responsibilities in *Capitalism and Freedom* with Smith's discussion of the invisible hand and the observation that "I have never known much good done by those who affected to trade for the public good."[108] Friedman elsewhere reinterpreted Smith's famous metaphor to explain how politicians and regulators were misled by the "invisible hand" of corporate interests: "men who seek through political machinery to serve only the public interest are led by an invisible hand to serve private interests which they would never serve if they knew what they were doing." The relationship was thus two-way: politicians were induced to pursue "social responsibility" through claims about the "public interest" and businesses supported these programs and regulations if it was in their self-interest.[109]

Friedman described this process in an overlooked article he wrote for the *National Review* soon after *Capitalism and Freedom*.[110] The context was Lyndon Johnson's call for banks to restrain foreign loans to lessen gold outflows and reduce the balance-of-payments deficit. The president also proposed to pass legislation exempting banks from antitrust laws if they voluntarily aided in these efforts.[111] Friedman observed a devious motivation behind the participation of banks in Johnson's socially responsible scheme. He noted that if foreign loans were constrained then their price would rise in favor of the large banks that did business abroad. In 1966, in fact, 85 percent of US foreign claims were held by just twenty large banks, with three major New York banks controlling nearly all overseas branches.[112] Friedman suggested that these big banks were the real drivers of the

[105]"Economic Policy: Intentions vs. Results," HIA, Milton Friedman Papers, Box 36, Folder 5, 5.

[106]"The Market versus the Bureaucrat" (1968), HIA, Milton Friedman Papers, Box 50, Folder 2, 6.

[107]"Economic Policy: Intentions vs. Results" (n.d.), HIA, Milton Friedman Papers, Box 36, Folder 5, 15.

[108]Friedman, *Capitalism and Freedom*, 133.

[109]"Economic Policy: Intentions vs. Results," HIA, Milton Friedman Papers, Box 36, Folder 5, 3, 18; Friedman and Friedman, *Free to Choose*, 201, 292, 297; Burgin, *The Great Persuasion*, 191.

[110]Milton Friedman, "Social Responsibility: A Subversive Doctrine," *National Review*, 24 Aug. 1965, 721–3.

[111]Peter Dombrowski, *Policy Responses to the Globalization of American Banking* (Pittsburgh, 1996), 41–57.

[112]Frederick R. Dahl, "International Operations of U.S. Banks: Growth and Public Policy Implications," *Law and Contemporary Problems* 32/1 (1967), 100–30, at 105, 107; Dombrowski, *Policy Responses to the Globalization of American Banking*, 50.

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scheme, giving the lie to social responsibility: "The voluntary exercise of 'social responsibility' has become a governmentally approved cartel to raise the price to foreign borrowers—which helps to explain why leading New York bankers were among those who developed the program and why so many banks heavily involved in foreign lending have been so favorably disposed towards it."[113] In his *National Review* article, as in *Capitalism and Freedom*, Friedman cited Smith's dictum about those affecting to trade for the public good.[114]

The identification of a "governmentally approved cartel" signaled the continuing influence of the ideas of political monopoly that *Capitalism and Freedom* had analyzed. In the earlier book, Friedman had implicitly attacked the assumptions of the period's early CSR literature about enterprise size and social responsibility, declaring that "the existence of monopoly raises the issue of the 'social responsibility' … of the monopolist." He added that companies were "hardly visible as a separate entity" in competitive markets, but added, "The monopolist is visible and has power. It is easy to argue that he should discharge his power not solely to further his own interest but to further socially desirable ends."[115] Friedman provided a more pessimistic interpretation. Claims about social responsibility signaled the protection of a monopoly, or strategies to obtain one through political means.

Friedman's assertion rested on an important assumption: only a monopolist would have the funds to pursue social responsibility as a truly altruistic, ongoing business practice. Friedman was later paraphrased in an article in the *Los Angeles Times* (1973) on business and social concerns explicitly making this point: "the money laid out for corporate good deeds is a sign of monopolistic tendencies. In a truly competitive market, the theory goes, companies cut prices and expenses to compete efficiently and have little cash left over for 'cosmetic' activities." The example Friedman offered to illustrate the problem was the "mom-and-pop" corner grocery: "Have you ever heard anybody suggest that the [they] should sell food below cost to help the poor people who shop there?"[116] Small businesses, Friedman implied, could not afford to make such "socially responsible" sacrifices that were purely altruistic. This interpretation signaled that Friedman had a narrow definition of social responsibility as purely altruistic.

Friedman's analysis during the early 1960s about how large businesses used claims about social responsibility highlighted that the "deepest problem" was, in fact, "the political problem." By using social responsibility to legitimize their monopoly or to obtain one, managers and directors were socialized to behave politically or were politicized by their access to government influence. This was a "stepping stone to socialism."[117] Claims of social responsibility hid a process by which business decision making moved from market to political logics—politicization. By playing the game of social responsibility—for example, responding to calls from the government for price controls to keep down inflation or influencing

[113]Friedman, "Social Responsibility: A Subversive Doctrine," 722.

[114]Ibid., 723; Friedman, *Capitalism and Freedom*, 133.

[115]Friedman, *Capitalism and Freedom*, 120.

[116]Erich Auerbach, "Corporations Leap toward Social Concern," *Los Angeles Times*, 23 Nov. 1973, 18, col. 5; John McClaughry and Milton Friedman, "Milton Friedman Responds: A Business and Society Review Interview," *Business and Society Review*/1 (1972), 5–16, at 6.

[117]Friedman, "Social Responsibility: A Subversive Doctrine," 723.

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regulators—managers became "civil servants" and accepted that political "mechanisms" would increasingly shape their decision making.[118] Friedman would go on to explore this problem much more explicitly as he became concerned that shifts in American business culture and its embrace of social responsibility also intruded political decision making into the workings of the corporation itself.

Friedman's second critique: social responsibility and internal politicization

Friedman's second, internalist critique was already evident in a talk he gave in 1965 that survives in manuscript. His interest still lay primarily in the corporatist government programs of the time concerning wage restraint and capital movements. Reflecting on Johnson's banking program, Friedman believed he had spied an insight into how social responsibility actually worked: such exhortations had little effect until they were backed up by coercion to enforce sanctions against those who did not comply. Either a bureaucrat or a private committee that "typically will be composed of representatives of the industry" formulated these regulations.[119] He observed that just such a system of compliance had recently been erected.[120] Friedman then turned to point to the internal politicization of the company caused by these conditions. Even if an industry understood the specifics of the government policy and there was voluntary compliance, nonetheless managers and labor leaders were behaving politically in responding to these calls. They were no longer reacting to the price mechanism, but rather to political dictates, and if they were

> "public" servants who are exercising a "public" function, then it is inevitable that sooner or later they be selected through an explicitly political process and their powers be circumscribed and their responsibilities delineated by a political mechanism. That is the basic reason why ultimately the doctrine of "social responsibility" in the form which it has taken is subversive of a free society.[121]

His article in the *New York Times Magazine* (1970), based on this talk and a paper he gave at the Mont Pèlerin Society meeting in Munich in 1970, was Friedman's fullest public discussion of the internal politicization of a corporation caused by social responsibility.[122] The context of the article explains this application. It was written during the emergence of a managerial culture that was more widely accepting of CSR and increasingly engaged with issues of environmental, consumer, and civil rights, especially after the riots of 1967.[123] The article was published (though not written) in response to "Campaign GM," an initiative of the larger Project on Corporate Responsibility led by Ralph Nader. Nader, the most prominent American consumer advocate of the period, sought to "make General Motors

[118] Friedman, *Capitalism and Freedom*, 134.
[119] "Responsibility: Insights from Economics," HIA, Milton Friedman Papers, Box 48, Folder 15, 4.
[120] Ibid., 8.
[121] Ibid., 7; see also Friedman, *Capitalism and Freedom*, 134.
[122] Burgin, *The Great Persuasion*, 189–90. Several of these arguments were anticipated by Rostow, "To Whom and for What Ends Is Corporate Management Responsible?", 63–9.
[123] Alexander R. Hammer, "Social Ideas Accented in Reports," *New York Times*, 28 June 1970, 106.

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responsible," accusing the company of being a major polluter, of violating safety laws, and of low-quality manufacturing that led to expensive repair bills.[124] After purchasing twelve GM shares, Nader's group proposed at the annual shareholder meeting to add three directors to GM's board who would represent the public interest and establish a shareholder committee for corporate responsibility.[125] Nader's efforts were explicitly cast as part of the larger wave of activism for consumer protections and civil rights, and demands for corporations to support these efforts through social-responsibility initiatives.[126]

In his magazine article, Friedman first appealed to the self-interest of the shareholders he sought to rally against social responsibility by applying a political lens. Even if managers genuinely decided to promote a social interest or were compelled by shareholders, Friedman assumed that this would lead to a reduction in profits. Managers might, for example, pursue price restraint in order to contribute to holding the line against inflation even though the company would benefit from a price increase.[127] By either increasing the company's costs or reducing its potential revenue, the manager would therefore have imposed a tax on the shareholder–owners by effectively spending their money "guided only by general exhortations on high to restrain inflation, improve the environment, fight poverty and so on and on."[128] By pursuing these social causes, the manager, or the shareholder activists in the case of GM, would become, "in effect, a public employe[e], a civil servant," and apply political mechanisms to force the other stockholders "to contribute against their will to 'social' causes favored by the activists." If they were to spend the corporation's money on these causes, "then political machinery must be set up to guide the assessment of taxes and to determine through a political process the objectives to be served."[129] The choice of social causes invoked a process of political decision making.

Friedman's second criticism addressed how business activities that were represented as "socially responsible" were in, fact, benefiting the company. He provided several examples, including community investments to promote recruitment or even charitable giving for tax purposes. If social responsibility could produce profits in a competitive market, then on his own logic it must be acceptable. This was underscored in the private correspondence in which Friedman glossed his article. He explained that the key test was dollar-for-dollar return and emphasized that this calculation could be over the long term. In reply to inquiries from businesspeople and other academics, Friedman later explained that he approved of expenditures that had social benefits so long as they passed this test:

> I stressed in the article that it might be in the long-run interest of a corporation to devote resources to providing amenities to a community or to improving its government. I can well believe that it may be in the long-run profit interests of

[124]Carroll *et al.*, *Corporate Responsibility*, 230–35; 240–42; Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (Princeton, 2003), 361.

[125]Richard Halloran, "Nader to Press for G.M. Reform," *New York Times*, 8 Feb. 1970, 44; Patricia Cronin Marcello, *Ralph Nader: A Biography* (Westport, 2004), 58–61.

[126]Carroll *et al.*, *Corporate Responsibility*, 234–42; Cohen, *A Consumers' Republic*, 346–88.

[127]Friedman, "The Social Responsibility of Business Is to Increase Its Profits," 33.

[128]Ibid., 122.

[129]Ibid., 123.

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> your corporation to support institutions that will improve the labor market in which you operate. The key test in all of these cases is the question of whether you can reasonably expect to get a dollar return in profits for a collar [*sic*] of costs.[130]

This test was broad and Friedman agreed with another correspondent that managers ought to "look at the profits but not solely at short-run and immediate profits."[131] But this latitude also underscored that Friedman believed that true social responsibility was altruistic. Socially responsible activities aimed at increasing returns were driven by self-interest and market mechanisms and were not altruistic. He explained his distaste for business hypocrisy in private correspondence: "in practice I believe that there is not much action of that kind [social responsibility], that mostly what is so labeled consist of activities that do have a business justification."[132]

In the *New York Times Times Magazine* article he observed that such forms of social responsibility were merely a "cloak for actions that are justified on other grounds," and this "hypocritical window-dressing" was "approaching fraud."[133] As late as 2005 in a roundtable with the founder of Whole Foods, Friedman declared that the company "has done well in a highly competitive industry. Had it devoted any significant fraction of its resources to exercising a social responsibility unrelated to the bottom line, it would be out of business by now or would have been taken over."[134]

This suspicion supported Friedman's belief that only a monopoly could afford ongoing altruistic expenditures on social responsibility. The presumption behind Friedman's thinking was that small, socially responsible firms would ultimately fail. He later elaborated on this assumption privately in correspondence. Friedman admitted regret at not having made his ideas about the relationship between monopoly and CSR more explicit in the *New York Times Times Magazine* article. He explained his underlying reasoning:

> there is a possibility of pursuing some other objective than profit, such as social responsibility, only if enterprises have a monopoly position. If there is vigorous competition, any company that does engage by itself in activities which do not return dollar for dollar will tend to make losses and tend to be driven out of business. Thus business seldom realizes, when it professes to be spending money in the name of social responsibility, that it is in fact proclaiming that it has a monopoly position and monopoly profits which it can dispense without attention to the needs of its customers or of its employees or of its stockholders.[135]

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130 "Friedman to Lowenstine Jr.," 3 Nov. 1970, HIA, Milton Friedman Papers, Box 204, Folder 13; and "Friedman to David J. Christensen," 29 Oct. 1973, HIA, Milton Friedman Papers, Box 204, Folder 13; "Friedman to Elliott Wright," 3 Nov. 1970, HIA, Milton Friedman Papers, Box 204, Folder 13.

131 "Friedman to Griffin," 29 Oct. 1970, HIA, Milton Friedman Papers, Box 204, Folder 14.

132 "Friedman to William Falvey," 15 July 1971, HIA, Milton Friedman Papers, Box 204, Folder 14.

133 Friedman, "The Social Responsibility of Business Is to Increase Its Profits," 124.

134 Milton Friedman, John Mackey, and T.J. Rodgers, "Rethinking the Social Responsibility of Business," *Reason.com*, Oct. 2005, at https://reason.com/2005/10/01/rethinking-the-social-responsi-2.

135 "Friedman to Wright Elliott," 3 Nov. 1970, HIA, Milton Friedman Papers, Box 204, Folder 13, 3; and again "Friedman to Clare Griffin," 29 Oct. 1970, HIA, Milton Friedman Papers, Box 204, Folder 14.

When Friedman was later interviewed about CSR in 1972 he was explicit about its relation to monopoly, explaining that businesspeople who "boasted" about socially responsible expenditures "should be regarded as asking for an investigation by the Antitrust Division of the Justice Department."[136]

Managerial decisions based on social responsibility produced three outcomes, according to Friedman. If the expenditure on social responsibility was truly altruistic, the firm would eventually fail in a competitive market. If the expenditure was pursued for ulterior motives (profit), it was fraudulent. If the expenditure was not profit-generating, yet continuously practiced, it signaled a monopoly. In all three cases, social responsibility was irresponsible, because it was "approaching fraud" and, by removing businesses from the discipline of the market, encouraged managers to make decisions, even altruistic ones, according to the "political mechanism."

In 1970 Friedman explicitly contrasted the two logics of the market and political mechanisms. "Unanimity" through the price mechanism underlay the former and thus in an "ideal free market … no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate." In contrast, conformity underlay the "political mechanism," and hence an "individual must serve a more general social interest—whether that be determined by a church or a dictator or a majority." The danger, as Friedman reiterated, was that the intrusion of political logics of decision making into the corporation conditioned managers to respond to political signals and was a slippery slope to collectivization. As he wrote alarmingly in 1970, "the doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine."[137]

Friedman continued to use the Smithian framework to warn against the dangers of politicizing business under the guise of social responsibility. When he addressed the Mont Pèlerin Society in 1976 on the anniversary of the publication of *The Wealth of Nations* he likened himself and his audience to Smith, challenging an entrenched system of business self-interest masquerading as regulations for the public good.[138] The great philosopher had warned in his own time that monopolists were "like an overgrown standing army."[139] Smith, Friedman explained, had been no "apologist for merchants and manufacturers, or more generally other special interests, but regarded them as the great obstacles to laissez faire—just as we do today."[140] As they had been in Smith's time, these special interests were alive and well and they were deeply entangled with government. "The failure to understand this profound observation," Friedman warned, had led those who sought to "promote the public interest … [to] become the front-men for special interests they would never knowingly serve."[141] Business interests were adept at manipulating

[136]McClaughry and Friedman, "Milton Friedman Responds," 6–7.

[137]Friedman, "The Social Responsibility of Business Is to Increase Its Profits," 125.

[138]An edited version was printed as Milton Friedman, "The Adam Smith Address: The Suicidal Impulse of the Business Community," *Business Economics* 25/1 (1990), 5–9.

[139]Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 471.

[140]"Adam Smith's Relevance for 1976," HIA, Milton Friedman Papers, Box 55, Folder 21, 1; also see Friedman and Friedman, *Free to Choose*, 38.

[141]"Adam Smith's Relevance for 1976," HIA, Milton Friedman Papers, Box 55, Folder 21, 14.

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policy makers and the public. He found offensive, in particular, "those nauseating TV commercials that portray Exxon and its counterparts as in business primarily to preserve the environment."[142] Friedman also expressed his revulsion at the "self-serving hogwash" of claims about social responsibility with direct reference to Smith.[143] Business, as Friedman often liked to paraphrase Smith, should not be trusted when it affected to trade for the public good.[144]

Conclusion

Friedman's criticisms of business and its social responsibilities evolved over time. His discussions in *Capitalism and Freedom* and in the *New York Times Magazine* reveal a shift in focus from how business manipulated its external political environment to a concern about the internal politicization of the corporation. Both perspectives shared a fundamental concern about business interests, politics, and monopoly that was connected to the debate among liberals during the 1930s and 1940s, and the emerging literature on social responsibility. Adam Smith's observations about mercantile self-dealing informed Friedman's analyses by identifying the problem to be solved: the entanglement of business with political authority that led to the restriction of competition in markets. Monopoly continued to figure prominently in Friedman's thinking.

Historical contextualization also reveals the extent to which Friedman constructed his arguments around the major problems that had preoccupied the first generation of neoliberals and, indeed, the business debates dominant during the 1930s and 1940s. This reconstruction contributes a corrective to the historiography: Friedman was not naive in his understanding of corporate power or its potential for social harm. His opposition to social responsibility was neither straightforwardly pro-business nor antistate. Instead, Friedman sought to advance and protect free markets from both business and the state. In seeking to curtail business meddling with political authority, Friedman sometimes appealed to self-interest in a lecture he occasionally delivered, the "Suicidal Impulses of the Business Community," in which he argued that social responsibility led down a path in which the freedoms of managers would be lost.[145] Managers who invited political mechanisms of decision making either cynically or sincerely undermined the free market and, ultimately, their own autonomy. In this sense, Friedman's arguments were of their time in their apprehensions about the corporatist reach of the postwar state and the growth of large-scale enterprise, and yet also anticipated critical CSR's concerns about business hypocrisy.

Friedman's arguments quickly became a touchstone in a lively debate about business and its social responsibilities that became mainstream during the late

[142]"Adam Smith's Relevance for 1976," HIA, Milton Friedman Papers, Box 55, Folder 21, 6; McClaughry and Friedman, 1972, 8; and McClaughry and Friedman, "Milton Friedman Responds," 6. For Exxon's early commitment to CSR see J. K. Jamieson, "The Social Responsibility of the Corporation," *The Lamp*, 1971, 1–3.

[143]"Friedman to John Habberton," 6 May 1974, HIA, Milton Friedman Papers, Box 204 Folder 14; and also McClaughry and Friedman, "Milton Friedman Responds," 6; "Friedman to Johnson," 15 March 1973, HIA, Milton Friedman Papers, Box 204, Folder 14.

[144]See also Friedman and Friedman, *Free to Choose*, 194–215; 292–300.

[145]"An Interview with Milton Friedman" (2006), *EconTalk*, at www.econlib.org/library/Columns/y2006/Friedmantranscript.html (accessed 1 Nov. 2022).

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1960s and the 1970s. Arjay Miller, former president of Ford and then dean of the Stanford Business School, observed of this debate in 1970, "At no time in our history have more voices been raised supporting the view that business must break out of its conventional preoccupation with profit and do more to meet pressing social needs."[146] Friedman's article was soon republished (with opposing viewpoints) and became a point of reference in symposia, speeches, editorials, and articles.[147] When the White House gathered 1,500 leaders from academia and industry in 1972 to consider the future of business, business and social responsibility was a major theme. The futurist Roy Amara's overview of the subject in the conference volume recognized the validity of aspects of Friedman's argument on the way to advocating for greater government incentives for "socially responsible markets."[148] Friedman's article, however, did not influence a sudden change in mainstream managerial language around social responsibility, and was instead labeled "an anachronism" in the *Wall Street Journal* and elsewhere.[149] Nor did Friedman immediately inspire the shareholder-value movement, which only became prominent in the early 1980s.[150] As Cheffins concludes, "Milton Friedman's 1970 essay thus seems not to have offered any sort of turning point for America's leading corporate executives."[151] In fact, as the decade progressed, Friedman's view lapsed into the minority, at least publicly among executives and academics. An observer at a conference on social responsibility at Berkeley in 1972 noted the lack of a contrary opinion among the "50-odd businessmen present."[152]

However, Friedman's arguments were influential even if their impact was sometimes indirect. Michael Jensen and William Meckling, for example, traced the genesis of their famous paper on agency theory that provided a theoretical basis for the shareholder-value revolution to Friedman's arguments about social responsibilities. When asked by Karl Brunner in 1971 to write a paper for a conference in Switzerland specifically on the social responsibilities of business, Jensen and Meckling recalled that they "accepted the task to present a paper somewhat similar to Milton Friedman's famous piece on the business of business is to maximize

[146]Arjay Miller, "Business with a Social Conscience," *New York Times*, 18 Jan. 1970, 8, 38.

[147]Milton Friedman, "Does Business Have a Social Responsibility?", *Magazine of Bank Administration* 47 (1971), 13–16; William Cary, "Greening of the Board Room," *New York Times*, 4 Aug. 1971, 33; Eileen Shanahan, "Good Guys and Bad Guys: Institutions Asked to Consider Morality," *New York Times*, 11 April 1971, F7.

[148]Roy Amara, "An Overview on the Social Responsibility of Business," in *A Look at Business in 1990: The White House Conference on the Industrial World Ahead* (Washington, DC, 1972), 77–84, at 81; cf. others' views: Arjay Miller, "The Social Responsibility of Business," in ibid., 85–9; and Henry Manne, "The Paradox of Corporate Responsibility," in ibid., 95–8, 100.

[149]Cited in Cheffins, "Stop Blaming Milton Friedman!", 1626; Edwin Dale, "Views Given to Congress by 'Radical' Economists," *New York Times*, 1 March 1972, 53.

[150]Cheffins, "Stop Blaming Milton Friedman!", 1631, 1639–40; Lazonick and O'Sullivan, "Maximizing Shareholder Value," 14; Neil Fligstein and Taekjin Shin, "Shareholder Value and the Transformation of the U.S. Economy, 1984–2000," *Sociological Forum* 22/4 (2007), 399–424; Johan Heilbron, Jochem Verheul, and Sander Quak, "The Origins and Early Diffusion of 'Shareholder Value' in the United States," *Theory and Society* 43/1 (2014), 1–22, at 17.

[151]Cheffins, "Stop Blaming Milton Friedman!", 1626.

[152]David Loehwing, "Profits, Not People: A Contrary Opinion on Corporate Responsibility," *Barron's National Business and Financial Weekly*, 27 Nov. 1972, 7.

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profits" that would cheekily "trigger" the "attendees of the conference." Friedman may have been articulating a widespread attitude towards CSR that was no longer fashionable. There was a strong suspicion among researchers, for example, that middle management and the "rank and file" were much more skeptical about implementing the concept.[153] There were also executives and academics who publicly continued to reject CSR, such as Henry Ford II and Manne, the latter maintaining his argument that, "If an industry is fully competitive, significant nonprofitable behavior is, of course, impossible," presciently adding, "If public shareholders exist and without significant legal barriers to takeovers, mergers, or proxy fights, managers who actually engage in nonprofitable activities will soon be displaced."[154]

While Friedman's criticism of social responsibility revealed his suspicion of business interests, it could also be useful to those same interests. He continued to enjoy support from the business community, which contributed funds, for example, to his television series (1980).[155] His occasional disparagement of managerial behavior might be overlooked, as ideological fellow travelers and those seeking to limit government regulation welcomed his overarching message of advancing free enterprise, and because his message about social responsibility steadily reached friendly ears within a changing business culture. Business leaders increasingly realized that social-impact programs on the scale imagined after 1967 were difficult and expensive, and their effects limited. Neil Chamberlain explored this problem as early as 1973 in his "limited responsibility thesis."[156] The goals of reducing poverty, promoting civil rights, and protecting the environment might be too big for business alone. Acknowledging these limitations, Miller, for example, called for government coordination and incentives, and advocated for a National Goals Institute in 1970.[157] Throughout the 1970s the US government created bureaucracies and regulations specifically to address environmental impacts and civil rights rather than waiting on business.[158] By the 1980s corporations institutionalized CSR in ways mindful of the bottom line, as a means "to achieve both economic *and* social performance."[159] This made sense: American corporations were under significant competitive pressure, especially from Japanese rivals, and corporate takeovers and restructurings threatened undervalued companies.[160] One of the strongest

[153]Leonard Sloane, "Social Role Urged on Business," *New York Times*, 15 Oct. 1970, 71, 79; Phillip Drotning, "Why Nobody Takes Corporate Social Responsibility Seriously," *Management Review* 62/3 (March 1973), 63–4, at 63; John Collins and Chris Ganotis, "Is Corporate Responsibility Sabotaged by the Rank and File?", *Business and Society Review* 7 (1973), 82–8; Lyman E. Ostlund, "Are Middle Managers an Obstacle to Corporate Social Policy Implementation?", *Business & Society* 18/2 (1978), 5–20.

[154]*A Look at Business in 1990*, 97; Jerry Flint, "Ford Says Company Profit Is Its Social Responsibility: Profit Stressed by Ford," *New York Times*, 12 May 1972, 55.

[155]Angus Burgin, "Age of Certainty: Galbraith, Friedman, and the Public Life of Economic Ideas," *History of Political Economy* 45, supplement (2013), 209–10.

[156]Neil W. Chamberlain, *The Limits of Corporate Responsibility* (New York, 1973).

[157]Miller, "Business with a Social Conscience"; *A Look at Business in 1990*, 87.

[158]Carroll *et al.*, *Corporate Responsibility*, 274–85.

[159]Ibid., 305, original emphasis.

[160]Lazonick and O'Sullivan, "Maximizing Shareholder Value," 15–18; Fligstein and Shin, "Shareholder Value and the Transformation of the U.S. Economy," 402–5; Heilbron, Verheul, and Quak, "The Origins and Early Diffusion of 'Shareholder Value' in the United States," 2.

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claims that Friedman (and also Manne) made of altruistic social responsibility was that it was uncompetitive: only monopolistic companies could truly engage in CSR.

The usefulness of Friedman's critique to business during the 1980s and into the 1990s remains to be traced, but read carefully it was a major statement of the instrumental, profit-attentive CSR that became dominant. In his assessment of CSR in 1974, the management consultant Peter Drucker argued that business had a role to play in addressing social challenges, but opined that the first social responsibility of business was to make a profit, which provided the capital to invest in social causes.[161] Even Howard Bowen, in a retrospective in 1978, after lamenting the influence of corporations on government regulators, sketched out the need to use metrics to understand how social responsibility produced "intangible value" for corporations.[162] The idea that social responsibility could be good for the bottom line became mainstream in the 1980s, appearing as "strategic philanthropy," "social marketing," and other concepts.[163] Business could use CSR to become more aware of market needs and thereby more responsive. The Business Roundtable's Statement on Corporate Responsibility in 1981 explicitly cast CSR as a means to shape public opinion and prevent "further government involvement," while adding that "business activities must make social sense just as its social activities must make business sense."[164] Eventually Jensen himself argued for "enlightened stakeholder theory" by describing a test for value maximization that was remarkably Friedmanite: "Spend an additional dollar on any constituency provided the long-term value added to the firm from such expenditure is a dollar or more."[165] CSR was now an advantage in competitive markets, rather than a tool of monopoly.

Friedman's critique remains important because of its analysis of decision-making logics within businesses and the influence of the institutional environment on CSR practices. First, Friedman's criticisms of business and social responsibility did not rely on a putative "moral division of labour." He certainly believed that there was "no natural harmony between social and private interest."[166] Friedman always assumed that the market mechanism, in aggregate, produced socially beneficial outcomes.[167] He explained in correspondence to others, "the reason I believe the overriding objective for management should be to maximize profits for shareholders is because I believe that that is the way in which the corporation does contribute most to the public interest."[168] What divided the market and politics was

[161]Peter F. Drucker, "The New Meaning of Corporate Social Responsibility," *California Management Review* 26 (1984), 53–63, at 59, 61–2.

[162]Howard R. Bowen, "The Social Responsibilities of the Businessman: Twenty Years Later," in Dow Votaw and Edwin M. Epstein, eds., *Rationality, Legitimacy, Responsibility: Search for New Directions in Business and Society* (Santa Monica, 1978), 116–30, at 122, 124–8.

[163]Carroll *et al.*, *Corporate Responsibility*, 303–21.

[164]"Statement on Corporate Responsibility" (The Business Roundtable, 1981), 3, 14.

[165]Michael C. Jensen, "Value Maximization, Stakeholder Theory, and the Corporate Objective Function," *Journal of Applied Corporate Finance* 22/1 (2010), 32–42, at 36.

[166]Friedman, "Social Responsibility: A Subversive Doctrine," 723.

[167]Christopher Cosans, "Does Milton Friedman Support a Vigorous Business Ethics?", *Journal of Business Ethics* 87/3 (2009), 391–9; Harvey S. James and Farhad Rassekh, "Smith, Friedman, and Self-Interest in Ethical Society," *Business Ethics Quarterly* 10/3 (2000), 659–74.

[168]"Friedman to William Falvey," 15 July 1971, HIA, Milton Friedman Papers, Box 204, Folder 14; "Friedman to Douglas Sherwin," 24 Oct. 2006, HIA, Milton Friedman Papers, Box 204, Folder 13. He

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not moral labor in Friedman's thinking, but rather the process of decision making and its criteria. In fact, the very separation of political and market-based logics of decision making had its own moral value by helping to avoid power concentrations that threatened freedom. As Friedman explained in *Capitalism and Freedom*, "removing the organization of economic activity from the control of political authority, the market eliminates this source of coercive power. It enables economic strength to be a check to political power rather than a reinforcement."[169] Friedman's discussion of business and its social responsibilities in which markets needed to be protected from business interests supports Thomas Biebricher's recent argument that the "neoliberal problematic is an inherently political problematic."[170] Yet, as Biebricher notes, "surprisingly little is known about its political dimension," which is often thought irrelevant or "conjured away" by the Chicago school.[171] If the state was so central to maintaining competitive markets, what was its specific role in this process and how would a process of reform ensue that could depoliticize business?[172] Histories of business and its social responsibilities should attend to this nexus of business and political authority, especially as political CSR becomes more mainstream and in response to calls to examine the history of business power.[173]

The final contribution of this article is to demonstrate the institutionalism of Friedman's ideas about social responsibility. Friedman's assumption that managers should make decisions based on a market logic meant that the institutional environment outside regulation conditioned social responsibility. Many early proponents of American CSR had already admitted as much. They did not believe that social responsibility was driven by simple altruism, but rather by the recognition of business leaders of their "dependence upon a favorable social climate."[174] But Friedman recognized that markets were embedded within moral cultures and the need for, as he put it in 1965, "some basic commonly accepted set of ethical and moral values or standards." Friedman, however, did not scrutinize this problem, only observing at the time, "We are far more ignorant of the social and moral framework required," and only referring in passing to Edward Banfield's *The Moral Basis of a Backward Society* (1958).[175] He understood that business responded to signals for virtue within the wider society as they were mediated through the market. Business could accomplish moral labor, and he wrote to one correspondent that managers ought to respond to these market signals: "I cannot

also expected managers to behave morally: "Friedman to Robert Quayle Jr.," 20 Nov. 1976, HIA, Milton Friedman Papers, Box 204, Folder 14.

[169]Friedman, *Capitalism and Freedom*, 15–16.

[170]Biebricher, *The Political Theory of Neoliberalism*, 27.

[171]Ibid.; cf. Van Horn, "Reinventing Monopoly and the Role of Corporations," 218.

[172]Biebricher, *The Political Theory of Neoliberalism*, 140.

[173]Neil Rollings, "'The Vast and Unsolved Enigma of Power': Business History and Business Power," *Enterprise & Society* 22/4 (2021), 893–920; Naomi Lamoreaux and William J. Novak, eds., *Corporations and American Democracy* (Cambridge, MA, 2017); Mäkinen and Kasanen, "Boundaries between Business and Politics."

[174]Joseph William McGuire, *Business and Society* (New York, 1963), 273–4; Heald, "Management's Responsibility to Society," 379; Bowen, *Social Responsibilities of the Businessman*, 53.

[175]"Responsibility: Insights from Economics," 9; as early as 1948 Friedman claimed that a "stable society" need a commonly agreed ethical core: "Discussion of Paper of V. W. Bladen," HIA, Milton Friedman Papers, Box 39, Folder 12, 8; and Friedman, *Capitalism and Freedom*, 133.

blame you. Presumably, this kind of talk does add to your profits. It is apparently what the market is asking for and I cannot blame you if you give the market what it demands."[176] What was necessary was that citizens and consumers gave the right signals to businesses.[177] Friedman's suggestive pointing to the wider social and ethical context accords with growing interest in CSR to move beyond the firm in its analyses and to probe the influence of institutional structures in the creation of virtuous markets.[178] While his assumptions about this institutional context remain to be further explored, Friedman's criticisms about business and its social responsibilities will continue to have relevance as American society debates which values ought to matter in corporate decision making.

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[176]"Friedman to David J. Christensen," 29 Oct. 1973, HIA, Milton Friedman Papers, Box 204, Folder 13.

[177]William Baumol, *Perfect Markets and Easy Virtue: Business Ethics and the Invisible Hand* (Cambridge, MA, 1991), 50–57.

[178]Jesús Barrena Martínez, Macarena López Fernández, and Pedro Miguel Romero Fernández, "Corporate Social Responsibility: Evolution through Institutional and Stakeholder Perspectives," *European Journal of Management and Business Economics* 25/1 (2016), 8–14; Andrea Colli and Alberto Rinaldi, "Institutions, Politics, and the Corporate Economy," *Enterprise and Society* 16/2 (2015), 249–69; Jean-Pascal Gond, Guido Palazzo, and Kunal Basu, "Reconsidering Instrumental Corporate Social Responsibility through the Mafia Metaphor," *Business Ethics Quarterly* 19/1 (2009), 57–85, at 63; John L. Campbell, "Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility," *Academy of Management Review* 32/3 (2007), 946–67.

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