

# **An appropriate ethical model for business, and a critique of Milton Friedman<sup>1</sup>**

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## **Abstract**

A noble and appropriate ethical standard for every type of business enterprise, regardless of legal form, is a commitment to compete for the voluntary patronage of consumers in the free market, to refrain from seeking special privileges from government, and to stand up for private property and a competitive, open economy. This model is a corollary to recognition of the historical role of business interests as a key contributor to the expansion of economic regulation. The discipline known as business ethics is driven by the social agenda of political interests that are essentially antithetical to profit-seeking. For four decades, Milton Friedman has been the world's most prominent spokesman for free-market economic policies, yet his writings on "social responsibility" have provided the business-ethics community a convenient straw man by which to reveal what it considers to be the irrelevance of economics and the shortcomings of the corporate structure. They have also led Friedman to appear to condone the pursuit of special privilege by business, thereby retarding widespread acceptance of a free-market ethical standard.

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Thanks to Audrey Davidson, Steve Gohmann and Matt Keck for their helpful comments and suggestions.

<sup>1</sup> Friedman's intellect, status as a Nobel laureate, and courageous promotion of a free society are legendary, which, while giving a dilettante like me pause to criticize him, assures that his standing will remain secure.

## Introduction

In 1970, when interest in the ethics of business was increasing to a point that would soon cause evolution of a whole new discipline, a controversial essay on corporate responsibility was published in the *New York Times Magazine*<sup>2</sup>. It was written by Milton Friedman, columnist for *Newsweek* and a distinguished professor of economics at the University of Chicago. Drawn from a chapter of his 1962 book Capitalism and Freedom, the essay has been one of the more widely cited<sup>3</sup> – and criticized – of all Friedman’s popular writings.

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

## A new ethical standard

For five years, from 1979 to 1984, I was deeply involved in the effort to develop a new national business association through which it was hoped that a contingent of entrepreneurs and executives could be persuaded that their firms ought to refrain, to the maximum extent possible, from seeking to use government resources to achieve their objectives.<sup>4</sup>

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<sup>2</sup> This essay has been reprinted in countless collections. Friedman, 1972, pp. 177-184.

<sup>3</sup> Author John Hood, who is clearly familiar with the literature, has commented: “*It is no exaggeration to say that, with very few exceptions, every major article on or analysis of corporate social responsibility since publication of Friedman’s article has cited, mentioned, or challenged it.*” Hood, 1998.

<sup>4</sup> This organization, which I served as paid president and CEO from August 1979 to June 1984, was the Council for a Competitive Economy. While kept nominally active for a period of months after that by the Citizens for a Sound Economy, then a new organization, the Council has now been defunct for many years. Described as “...a national membership organization of businesses and individuals,” it had business members in all 50 states.

Through publications and testimony, this organization worked to introduce, defend and promote the following basic concept: *For a corporation or other business entity to commit itself to compete solely, or primarily, through a free and open market, relying thereby for its success on the voluntary choices of consumers, is an ethical “high road.”*<sup>5</sup>

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

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

Our organization’s view on the connection between ethics and the Chrysler proposal was simple and straightforward; to wit, a federal bailout of a private firm is unethical. Regrettably, it was almost impossible to thrust that perspective into the public debate. Instead, the media – with help from new ‘philosophers of business’ – focused mainly on the “ethics” of saving jobs – these were exaggerated up to 800,000 – and on the supposed “ethics” of the fact that Chrysler, merely because it was not as big as Ford and GM, “deserved” federal help.<sup>6</sup>

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<sup>5</sup> The organization’s goals were phrased several ways but the most commonly used description was as follows: “...to promote an economy operated and structured by market, rather than political, forces. The Council stresses the justice of economic freedom, voluntary trade, private property and individual rights.”

<sup>6</sup> Weidenbaum, 1986, p. 331.

That Chrysler was awarded \$1.5 billion in federal loan guarantees did help to illustrate, along with other, similar initiatives, the acute differences between a policy that is ‘pro-business’ and one that is ‘pro-market.’ It also enabled us to stress that public confusion about this point is largely a result of efforts by spokesmen for high-profile firms, such as Chrysler, to advocate and defend policies that have nothing to do with a market economy.

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

To be sure, many have written about the ethics of consumer choice in the marketplace.

For example, Murray Rothbard noted the following:

“Those who succeed on the free market, in economic life, will therefore be those most adept at production and at serving their fellowmen; those who succeed in the political struggle will be those most adept at employing coercion and winning favors from the wielders of coercion...In sum, governmental subsidy systems promote inefficiency in production and efficiency in coercion and subservience, while penalizing efficiency in production and inefficiency in predation. Those people who ethically favor voluntary production can gauge which system – the free market or subsidies – scores the higher economic marks, while those who favor conquest and confiscation must at least reckon with the overall loss of production that their policy brings about.”<sup>7</sup>

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

The classic attack on this perspective, of course, is to raise the spectre of monopoly and market power. Our position was clear. We advocated an economy both *operated* and *structured* by the forces of the free market; *i.e.*, consumers. While some could accept the former as an ideal

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<sup>7</sup> Rothbard, 1977, p. 171.

worth discussing, most choked on the latter. Even many economists – and those executives and politicians who followed them – shook their heads at our “naiveté.”

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

Along the way, we also touted a more urgent imperative, as was summarized by Friedrich Hayek in an informal talk he delivered during November of 1983:

“I very seriously regard the preservation of what is known as the capitalist system, of the system of free markets and the private ownership of the means of production, as an essential condition of the very survival of mankind...To change from a system of private property in the means of production will very soon mean the end of civilization and the decay of the standard of all of us. So far as they survived, in the long run, only few would survive; but those who did survive would find themselves at the level ultimately very near that of the savage.”<sup>8</sup>

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

Needless to say, we were often frustrated on Capitol Hill when business lobbyists on the ethical side of an issue (usually by pure happenstance) would be unwilling even to acknowledge the fact, let alone defend it. Attorneys in particular tend to shy from arguments on any principle

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<sup>8</sup> Hayek, 1983, p. 10.

other than strictly legal ones, presumably out of a fear of being hoisted on a “market petard” in the future. Anyone currently defending Microsoft will understand how we felt.

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

### **What of public corporations?**

There were several reasons why we felt that there was no compelling argument against a public company taking our “high road.” First, we acknowledged real-world constraints – a point understood and made by prominent columnist, David Francis:

“With some of the same fervor as a country preacher, Mr. Wilcke is ‘agin sin’ – that is, against having business get such government favors as subsidies, bailouts, protective tariffs, restrictive regulations, special tax breaks, and so on. *He is forgiving. He does not expect corporate members of the organization to be without ‘economic sins.’ But they are expected to be desirous of reform, of wanting to see a less-regulated, freer business environment, with a shrunken role for the government.*”<sup>9</sup> (emphasis added)

Admittedly, we were openly critical of public statements and speeches by spokesmen for business, but our emphasis was never so much on those who *went along* with policies as those who undermined the case for freedom by publicly arguing that privilege, subsidies or tariffs are consistent with the market, or that competition is unworkable or unjust in a particular firm or industry. That talk, which abounds, was exposed and ridiculed.<sup>10</sup>

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<sup>9</sup> Francis, 1980.

<sup>10</sup> One company president, a glass-products manufacturer from Ohio, informed me during a visit to his office that, while he wasn’t sure his firm agreed with us on everything, they considered it “*absolutely*” worth \$250 a year, the minimum corporate dues at that time, just to read examples of hypocrisy in the business community.

The second reason no concession was made to public corporations is that we knew of no historical evidence of cases where firms that had profited expressly because of special privileges or protection ever grew stronger or more competitive as a consequence. On the contrary. History seems to prove that protected firms inevitably grow more dependent and less competitive, as was explained a century ago on foreign trade by William Graham Sumner:

“The weakest (infant industries) today (1885) are those whom Alexander Hamilton set out to protect in 1791. As soon as the infants begin to get any strength (if they ever do get any) the protective system forces them to bear the burden of other infants, and so on forever. The system superinduces hydrocephalus on the infants, and instead of ever growing to maturity, the longer they live, the bigger babies they are. It is the system which makes them so, and on its own plan it can never rationally be expected to have any other effect.”<sup>11</sup>

We maintained that this effect was made manifest in regard not only to international trade but to the entire litany of economic interventions. (Have not psychologists always contended that people grow stronger in response to life’s rigors?) Business managers and owners can be fooled into judgment errors and malinvestments not only by monetary policies but by interference with pricing, restrictions, and various incentives – all “pro-business.”

Even Michael Porter, Harvard Business School management specialist, avowedly *not* a market ideologue, has written on the practical effect of subsidies:

“Subsidy delays adjustment and innovation rather than promoting it...Ongoing subsidies dull incentives and create an attitude of dependence. Government support makes it difficult to get industry to invest and take risk without it. Attention is focused on renewing subsidies rather than creating true competitive advantage. One subsidized industry propagates its noncompetitiveness to others. Once started, subsidy is difficult to stop. What is worse, subsidies to one ailing industry encourage others to seek them.”<sup>12</sup>

Given the inevitable effect of interventions on individual firms and industries, investors with an interest in long-term survival – whether such owners of equity are family members in a private corporation or employees who put their trust in pension-fund managers – are best served

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<sup>11</sup> Sumner, 1919, p. 80.

<sup>12</sup> Porter, 1990, p. 640.

over time by concentrating investments on, if not limiting them to, firms capable of flourishing in a competitive business environment under free-market conditions.

One securities-industry maxim is that what stockholders are after is rarely annual profits, *per se*, but rather an increase in wealth, which, while usually a result of profits, is more properly defined as net worth or owner equity. Is the goal of the majority of Americans invested in Wall Street earnings or appreciation? Long-term value is created by companies able to compete in the market. And the best course for an entrepreneur who wants his grandson to run his business 40 years hence is to shun regulated industries and special privileges.

It is entirely plausible that, given time, there could be created a premium for the shares of corporations committed to a 'high road.' After all, when it was widely believed that corporations were helping to sustain apartheid in South Africa, many investors, including universities, were suddenly pressured into making decisions based on involvement of firms in that nation. Relative to South African commerce, a stock-market discount was created overnight, and, in response, U.S. firms "disinvested" at least \$5 to \$10 billion between 1984 and 1989.<sup>13</sup>

It seems inevitable that a premium would evolve for shares in those public corporations whose managements were committed to competition, and, as well, a discount for shares of other firms, such as Archer Daniels Midland and Motorola, whose executives were committed mostly to competition in the political arena. Shareholders fuss about nearly everything else. Why might they not also be concerned about the ethics of market freedom?<sup>14</sup>

A final appeal to all businesses – public or private, large or small – is that this system of private property and free markets, in which firms are free to compete for consumer patronage, is much more likely to endure politically if those who own and manage these firms, and, therefore,

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<sup>13</sup> Thomas W. Hazlett, "Apartheid," in Henderson, 1993, p. 103.

have sufficient resources, are motivated to uphold it. As economist George Stigler said: “With or without the help of economists, however, it is surely businessmen who must bear the main burden of defending and extending the system of private enterprise.<sup>15</sup>”

### **Understanding of history**

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

Hence, a prerequisite to the advancement of a free-market ethic is a broader appreciation of the culpability of business in the expansion of intervention. One positive, if long-term, trend in that direction is that scholars working in the academic disciplines of economics, political science and history have come increasingly to the conclusion, more or less independently of one another, that special interests (and overwhelming the wealthier interests; *i.e.*, business),<sup>16</sup> invested lots of money and energy over the last century to promote regulations.

Regrettably, this perspective is incomprehensible to most business ethicists. The reason, we suspect, is the same reason it was found puzzling 20 years ago to intellectuals, especially in Washington. The explanation is that it does not accord with the economic class analysis of Karl Marx, an opinion expressed by Roy Childs in a 1969 lecture:

“(T)he ‘class lines’ in American history are different from what they were thought to be. Some of the men in larger businesses supported and even initiated acts of government regulation while others, particularly relatively smaller and more competent competitors, opposed such regulation. Thus we have a clear-cut case

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<sup>14</sup> As an example, there are mutual funds now that limit investments to corporations that are “socially responsible.”

<sup>15</sup> Stigler, 1982, p. 14.

<sup>16</sup> Weaver, 1988, summarizes historical evidence in a fascinating way, as does Childs, 1994. A problem is that many historians and political scientists discuss ‘interest groups,’ especially rich ones, but do not finger business explicitly. Meier, 1985, has a nice summary of the history of regulation in chapter one.

in American history that contradicts Marxian theory: the lines of battle and conflict were *not* drawn merely over the issue and criterion of individuals' relation to the means of production, but on much more complicated lines. A better classification might be...those who gained their wealth by means of confiscation, robbery and confiscation of other people's noncoercive activities, and those who gained their wealth by means of free trade in a free market, by the method of voluntary exchange."<sup>17</sup>

An intern of ours in a week or so at the Library of Congress confirmed that establishment of *every* single new federal regulatory agency from 1900 on, from PSA to OSHA, benefited from substantial business support. But even if we had not been interested in or familiar with the history of regulation, nothing we observed over five years in Washington would have led us to give the benefit of the doubt to business. We grew increasingly jaded by the lobbying efforts of business leaders, including some prominent *free-enterprise* speechmakers.

Unfortunately, there is no consensus among historians, economists or political scientists about the frequency or extent of business's political advocacy, only agreement on the existence of it. Nor is there much interdisciplinary contact. Political scientists, for example, seem never to have heard of the historian Gabriel Kolko,<sup>18</sup> while they disparage studies of economists such as George Stigler<sup>19</sup> on the grounds that they "already knew" about interest groups.<sup>20</sup> Historians are better, but most economists ignore everything not quantitative.<sup>21</sup>

There are also several levels of confusion, especially among the political scientists, over ethical implications of business lobbying. Is it all that bad, they ask? After all, isn't government just a benign tool of social policy, analogous to, say, a shovel? Maybe *any* interest group in our

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<sup>17</sup> Childs, 1994, p. 24.

<sup>18</sup> Kolko, 1963, a Marxist historian, performed a great service for all courageous advocates of the market. See also his Railroads and Regulation. Princeton: Princeton University Press, 1965.

<sup>19</sup> Stigler's important contribution was his "The Theory of Economic Regulation," *Bell Journal of Economics and Management* 2, Spring 1971. See also Peltzman, 1976, pp. 211-240, and Stigler, 1982.

<sup>20</sup> Meier, 1988, p. 22.

<sup>21</sup> The point is not to disparage positive methodology but to bemoan the interest in mathematical determinations of "optimal regulation" and ignorance of the work of non-mathematical historians. Interesting essays have been written by Jack High and Robert Tollison on the march of perspectives among economists. High, 1991, pp. 1-17, pp. 59-76.

society, even business, should have the right to seize it by “the handle,” as it were, and try to achieve something. Their view is that the job of politics is to create rules for sharing the tool and to put limits on the strongest; *i.e.*, “those huge corporations.”<sup>22</sup>

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

The most positive aspect of rent seeking is that it has helped economists to recognize the scope and costs of political redistribution by special interests, including business. A limitation is that emphasis is usually on empirical measurement of “waste” as a way of identifying “socially unproductive behavior.” A second is that the term has come to describe many productive market activities, such as advertising.<sup>23</sup> It is limited in usefulness as an ethical barometer, plus the term itself is more benign-sounding than profit seeking, which we stoutly defend.

The term “corporate welfare” is at the other end of that spectrum since everyone detests it instinctively, even those not sure of its meaning. Unfortunately, there are two definitions, each with a different slant on taxes. Anti-market spokesmen consider so-called “tax expenditures” – credits, deductions, deferrals and exemptions – to be particularly egregious because these funds are allegedly *paid* by taxpayers and *given* to business. The solution to the problem is obvious to them – eliminate “expenditures” and raise the taxes on business.

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<sup>22</sup> This is an admittedly blatant but hardly unfair paraphrase of the positions held by most political economists. For example, Meier, 1985, discusses several “*myths*” about economic regulation in just this tone.

<sup>23</sup> Two interesting articles on rent seeking that point out the contradictions of “*utilitarian approaches*” to waste and of government enforcement of “*free-market rent seeking*” are Pasour, 1986, and DiLorenzo, 1988.

The irony is that the same critics are happy to use business taxes as incentives to induce firms to take certain actions. Targeted tax benefits are a popular tool of manipulation, one that corporate leaders frequently support and are willing to accept. There *are* market organizations, such as Cato Institute, which use the term, both because it is useful and because it helps them to avoid being seen as apologists for business. But they usually qualify their use by adding a brief explanation that universal tax policies are not “corporate welfare.”

As used generally, the term conveys nothing positive about free markets, and is opposed for reasons good and bad. An example is the \$7 billion in subsidies that will have been spent by 2006 on publicly financed sports facilities for the benefit of privately owned professional sports teams.<sup>24</sup> The taxpayers in these markets are confused by the cost-benefit arguments of politicians and urban planners, and ethics is rarely seen as germane to the debates.

Two other shortcomings of these two concepts, rent seeking and corporate welfare, are: 1) Each is perceived as morally neutral – that is, either right or wrong, depending on the situation – and: 2) Neither term is ever used or referred to by business-ethics professionals. Not one of the most-used business-ethics texts shows either term in its index.<sup>25</sup> Whatever value these terms may have in demonstrating that business is guilty of using government for its purposes is diminished by their inability to penetrate the business-ethics fog.

For all this, it must be getting more difficult to avoid seeing this pattern. As a detective might put it, “*The fingerprints of business are all over government.*” While there is no dedicated single compilation available, evidence seems clear that for two centuries, there has been no type

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<sup>24</sup> Bast, 1998, p. 1.

<sup>25</sup> This was true of more than a half-dozen academic texts consulted. At the University of Louisville, the instructors have used De George, 1995, and Velasquez, 1998, in the past few years. There are a few excellent books on business ethics, notably Den Uyl, 1984, Machan, 1988, McGee, 1992, and Cheshier and Machan, 1999, but none of these are classroom texts in the sense the others are. To date, I’m aware of no free-market text.

or area of economic action – from trade policy to wars to farming to education to finance to so-called “consumer issues” – that has not had advocacy by business.

### **The business ethicists**

The discipline of business ethics is relevant to this discussion only in the sense that its practitioners have managed, with the aid of the business schools, to *capture* the subject area. Its scholarly contributions are mostly irrelevant. In fact, while ethics of commerce is a subject that scholars had written about for decades, at least since the 1930s, it was only during the 1970s that it became a full-fledged discipline, an academic “growth” industry.<sup>26</sup>

In the early 1970s, the American Assembly of Collegiate Schools of Business (AACSB) undertook a major analysis and revision of the subjects being taught in business schools. There was no mystery about why a study was commissioned. The organization sought 1) to maintain its leadership as an accrediting agency for business schools, 2) to be sure of incorporating the major trends in education and business, and 3) to provide guidelines for schools that were seeking to be accredited (without causing any trouble for those that already were.)

Due to several influences, the ethics of business executives and corporations had become an increasingly common subject for articles and speeches. One cause was the message of books by Harvard economist John Kenneth Galbraith. Galbraith – originally hired to be an agricultural expert – preferred writing prose for laymen<sup>27</sup> to doing research for economists. He taught readers that large corporations had virtually unlimited power, which led everyone to assume that society was totally dependent on the good will or “ethics” of those in charge.<sup>28</sup>

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<sup>26</sup> The perspective on the role of the AACSB in advancing the discipline is based on several conversations with Jesse M. Smith, CAE, an executive at the Association from 1970 to 1975.

<sup>27</sup> Galbraith was likely impressed by sales of The Hidden Persuaders by Vance Packard in 1957. Seeing a market for books invoking fear of corporations, he combined Packard’s views on the power of advertising with the ideas of his mentor, Thorstein Veblen, to concoct a popularly plausible economic theory.

Another cause was the growing environmental movement, spawned in part by the 1962 book, Silent Spring by Rachel Carson, in which it was argued that pesticides (read DDT) were gradually killing birds and wildlife. While in the 1950s companies had proudly adopted slogans like “Better Living Through Chemistry,” chemicals were feared by the 1960s, and corporations were successfully blamed for every negative aspect about them.<sup>29</sup>

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

As a result, the AACSB put in its report that, in order to be accredited, business schools should expose their students to some understanding of ethical issues. It was not a mandate that a course be taught in business ethics, merely a soft recommendation that ethics become part of the business-school experience.<sup>30</sup> It probably had more long-term impact as a signal of a new area of academic specialty than as a call for *bona fide* action by schools.

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

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<sup>28</sup> Many people, Ralph Nader prominently, were not willing to rely on ‘goodwill,’ which led to proposals for various government solutions; e.g., federal chartering, control of directors, oversight, etc.

<sup>29</sup> The Environmental Protection Agency was established in December, 1970. The federal government was charged with solving problems that business, or, more precisely, the market, had allegedly caused. The notion then popular, and still taught in business ethics, is that pollution is an inevitable result of profit-seeking.

<sup>30</sup> There is a great deal of evidence of this, even in the introduction to several of the standard texts. De George, 1995, for example, talks in his introduction how “young” is this whole field of study. In fact, the AACSB does not today mandate a course in business ethics, and some business schools have dropped theirs.

was offered at UCLA. At certain already-accredited business colleges, a note was simply sent to the philosophy department to locate a business-ethics volunteer.<sup>31</sup>

The practical result of this recruitment was that the discipline was launched, and lesson plans developed, by people who either a) had no training in ethics and no preconceived notions about the subject, such as business-school faculty members without a niche, or b) had training in ethics and likely *did* have preconceived notions, such as philosophers anxious for the chance to inculcate corporate-responsibility ideas on business students.<sup>32</sup>

By the late 1970s, the discipline of business ethics was rolling. The “Center for Business Ethics” at Bentley College near Boston began in 1976, immediately allowing Michael Hoffman, its founder and director, to posture as an international authority. The first business text came out in 1978, and *The Journal of Business Ethics* began in 1982. By then, the colleges were teaching it, and young executives were being hired to “put it into practice.”<sup>33</sup>

Of what does it, *i.e.*, the business-ethics discipline, consist?

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

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<sup>31</sup> Robert L. Taylor, dean of the University of Louisville’s CBPA, and a current AACSB leader, believes that ethics is a subject that seems to require grounding that only trained philosophers have.

<sup>32</sup> Some business ethicists are Marxists, and would presumably agree with a 1998 article in the *Journal of Business Ethics* that the “strategy of a Marxist approach to business ethics... is to criticize capitalism by way of pointing out how morally incompetent it is at the very core of its being.” Corlett, 1998, p. 100.

<sup>33</sup> Hoffman, who almost claims to have founded ethics single-handedly, makes much of his consulting with “ethics officers,” corporate executives whose purpose it is to worry about the vast agenda of issues. He started, and serves as executive director of, the National Ethics Officers Association. He has had a wonderful career.

Business law expert Laura Pincus summarized the issue:

“Champions of comparable worth argue that each job has an inherent value irrespective of the market; that the market thus is imperfect in its valuation of females in these positions, and that the law should create a hierarchy of job positions which are of comparable worth and set salaries accordingly. They refuse to accept that an employee’s economic worth is determined by his or her salary. Due to this flawed approach, they fail to recognize the incomparable wages derive not from faulty wage-scales but from the supply and demand curves that are formed.”<sup>34</sup>

Economics aside, the bottom line is that, save for one thing, virtually nothing that society at large would like to achieve is beyond the scope of business ethics. More jobs? Higher pay? A cleaner environment? Truth in advertising? More warning labels? Fair prices? Whistle-blowing? All are included. And who has a “stake” in this corporation? Employees, neighbors, customers. In short, there are no limits to the boundaries of business ethics.

The only area that the discipline considers taboo – the attitude that its practitioners see as unequivocally at odds with the very notion of business ethics – is self interest. The literature, as gauged by journal articles and textbooks, is clear on the general consensus that profits are not an ethical goal for business. One cannot help but be reminded of the first paragraph of The Ego and His Own by the 19<sup>th</sup> century German philosopher Max Stirner:

“What is not supposed to be my concern! First and foremost, the Good Cause, then God’s cause, the cause of mankind, of truth, of freedom, of humanity, of justice; further, the cause of my people, my prince, my fatherland; finally, even the cause of Mind, and a thousand other causes. Only *my* cause is never to be my concern. ‘Shame on the egoist who thinks only of himself!’”<sup>35</sup>

Just as it is taught in some circles that individuals should not think of themselves, so this altruistic philosophy drives the core beliefs of business ethicists. The difference in breadth only reflects the common perception about what constitutes a corporation. If corporations are created by government,<sup>36</sup> as is widely believed, then citizens of that state have the right to expect such a

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<sup>34</sup> Pincus, 1992, p. 1.

<sup>35</sup> Stirner, 1918, p. 1.

powerful entity to be socially responsible, hence this long agenda. What is never factored in, of course, is the role of either prices or profits in management.

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

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

There *is* a need for ethics to be taught in business schools, but it should deal with what is meant by a free and open market, economic competition, private property, and wholly voluntary exchange. A student in whom that version of ethics were impressed would want to take the high road and would be opposed to interventions. Instead, students are provided no understanding of any ethical barometer, only market agnosticism, undergirded by altruism.

Given this *apolitical* approach to the curricula, one can only assume that those hired to instruct business majors in ethics must be carefully instructed not to come down too heavily on the side of free markets. If this is their actual intent, they appear to have succeeded all too well.

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<sup>36</sup> If true, why should a corporation not pay a standard “*tribute*” whether profitable or not? Racetracks in most states have had the gaming market to themselves for many decades, which could be said to justify the pari-mutuel tax paid on gross receipts. But corporations must pay state taxes *only* if they’re profitable.

In fact, as Karol Boudreaux has stated, the reality is that “*virtually all business-ethics textbooks are commonly driven by a virulently anti-business agenda.*”<sup>37</sup>

### **Milton Friedman**

During the 1970s, the most well-known defender of a free market was Milton Friedman. He had a regular column in *Newsweek* magazine starting in 1966,<sup>38</sup> and, as a result of his worldwide reputation, was interviewed in *Playboy* magazine February of 1973. He became a counterforce to Galbraith, whose 1977 television documentary “The Age of Uncertainty” was followed three years later by Friedman’s own version “Free to Choose.”

What gave Friedman a permanent presence in the business-ethics literature was an essay published in *The New York Times Magazine Section* on September 13, 1970. It simply expanded on a chapter from his 1962 book Capitalism and Freedom, itself based on a series of lectures at Wabash College in the 1950s. Entitled “The Social Responsibility of Business is to Increase its Profits,”<sup>39</sup> it was an elucidation of the title used by the magazine.

There is much in the essay that is directly to the point of a free-market ethical standard for business, as described herein, since Friedman, as always, does a stirring job of defending the right of business to seek a profit. He is also a valiant defender of private property, of individual freedom, voluntary exchanges, and principles. Where he misses the mark, in my judgment, is in the narrowness of his definitions and his prescription for business.

Friedman’s position could have been limited to one simple premise; namely, that salaried executives of a public corporation by implicit legal contract have a fiduciary responsibility to the shareholders of the firm, which gives them the right *only* to use corporate resources to increase

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<sup>37</sup> Boudreaux, 1996, 33.

<sup>38</sup> Friedman, 1972, p. *ix*.

the wealth of those stockholders by seeking profits. The implication of this position is that they have no right under the contract to act on their own preferences, to make discretionary decisions or to expend resources of the firm to achieve social goals, which cannot be shown to be directly related to profits and, hence, to their fiduciary responsibility.

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

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

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

The fundamental advantage of the corporate structure is that it enables the amassing of substantial amounts of capital. Secondarily, it provides limited liability. These features must go

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<sup>39</sup> Like many famous articles and books, more people are familiar with the title than the work itself. In this case, one

hand in hand. A person is willing to invest in a joint stock company precisely because there are no responsibilities that go with ownership. And, while stockholders are ultimately the ones for whom the managers work, investors can be oblivious to them – buying and selling stock on the basis of market price alone, getting in and out as they see fit.

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

Likewise, contrary to Friedman, no one can “tax” them.<sup>40</sup> The decision of an executive to spend money on a social issue is not a *tax* in any standard sense of that word, meaning a “forced contribution of wealth,” one from which there is no escape.

As long as shares may be bought and sold voluntarily, it is an exaggerated misnomer to refer to a disbursement of funds not directly intended to increase profits as a *tax*. Just as market prices of goods convey key information to buyers (enough that they need not research why any given price may have changed), so market prices of stock, plus other disclosures a public firm will make available, convey key information to buyers (enough that they need not research why stock isn’t higher, even if a reason may be contributions).<sup>41</sup>

It is not difficult to see or agree with the logic of Friedman’s statement that the “primary responsibility” of a corporate executive is to the owners (or shareholders) of the firm. Business

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could scarcely complain since the title is an unusually accurate precis of the article itself.

<sup>40</sup> “...if he spends the money in a different way than they would have spent it...he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.” Friedman, 1970, p. 219.

<sup>41</sup> “The price system transmits only the important information and only to the people who need to know.” Friedman, 1970, p. 15. Does this mean only for pencils or for securities as well? Besides, while “extraneous” expenditures may

ethicists should understand that point. But, by what logic do customers have some prior right to purchase goods at a low price? Friedman contends that a second reason a manager cannot spend funds for social causes is that “(i)nsofar as his actions raise the price to customer, he is spending customers’ money.”<sup>42</sup> Most business ethicists would agree.

He also argues, along the same lines, that, “(i)nsofar as his actions lower the wages of some employees, he is spending their money.” Karl Marx himself would probably agree with that one. Both positions seem hard to square with a free market.

Is there a constituency other than owners to whom a corporate executive is responsible? That shareholders are only one of “a great many constituencies” is now a fundamental premise of business ethics.<sup>43</sup> Further, as Richard De George preaches, “It is not accurate to claim that a corporation owes allegiance only to the owners or shareholders of the firm. Nor is it clear from a moral point of view that the interests of the shareholders always take precedence over other interests.” Friedman must be the devil in De George’s religion.

Yet, while Friedman would not include all of the groups now believed to have a stake in a corporation, he certainly does seem to acknowledge three of them:

“The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so. The executive is exercising a distinct ‘social responsibility,’ rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it.”<sup>44</sup>

If, as it seems, Friedman was saying that customers and employees have a stake in the company, he should have acknowledged that the interests of these groups are not equal to the interests of the shareholders. Otherwise, how are these interests to be reconciled?

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cause stock not to rise as high, thereby ‘decreasing wealth’ in the short run, why is this necessarily an unethical or “irresponsible” decision? Isn’t it possible that it’s just ill-advised or stupid?

<sup>42</sup> Friedman, 1970, p. 219.

<sup>43</sup> De George, 1995, p. 132.

To my knowledge, Friedman never wrote anything further on either business ethics or stakeholder theory, preferring to leave the confusion alone. Unfortunately, the consensus today is that the study of business ethics must begin with a recognition that there are many constituencies, meaning groups affected by the actions of the corporation.<sup>45</sup> It seems as if that simple fact could be conceded without denying private-property rights of shareholders.

The problem is that it is not adequate to say, as did Friedman, that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits.” Just as a not-for-profit company is allowed to make a profit, so a for-profit company could make profits a secondary or tertiary concern. One could argue that a university should have the right to put athletics above scholarship. In a free society, a company can be as “socially responsible” as its management chooses it to be.<sup>46</sup>

Friedman’s denial of any other possible approach has rendered his position a convenient “straw man” for business ethicists. They contend that he neglects all the ethical issues for the sake of a purely economic approach. He totally rejects the idea, they argue, that any other group can have a stake in the corporation’s actions. At which point, he, economics, and all references to profits and markets are rendered officially irrelevant to ethics.<sup>47</sup>

One serious question for Friedman is what if a corporate manager believed that the future of the corporation – and, therefore, the long-term security of the wealth of the owners – required

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<sup>44</sup> Friedman, 1970, p. 219.

<sup>45</sup> These days, says Jeff Scott, “*Stakeholders are conceptually flaccid and politically muscular*”...causing CEOs...”*to act as diplomats in a political rivalry rather than executives...*” Scott, 1998, p.1.

<sup>46</sup> D. Liechty argues that by not allowing business to do anything “*socially responsible*,” Friedman, in essence, is telling communities and others who feel they have a stake in the company’s actions that their *only* option is to get government to force the company’s hand. Liechty, 1985, p. 205. The official position of The Business Roundtable suggests that this is a perspective with which many CEOs of large corporations would agree (Sigler, 1981).

<sup>47</sup> The standard line in the business-ethics literature is that Friedman’s side is that of “*blatant self-interest*” and “*pure economics*,” while the other side is that of “*responsibility, compassion and ethics*.” Students have a choice of which of these two contrasting expressions of blatant self-interest they prefer.

that the free market be defended by some organization, such as the Ludwig von Mises Institute? Would that manager be empowered to invest corporate funds? Does it matter whether the check is big or little? Would a big check be a high “tax” and a little check be a low “tax”? What if that manager weren’t sure whether the investment in the market would really help the company, or if the Mises Institute were capable of making a real impact?

While it is difficult to understand why contributing to an organization working for a free economy could not still be warranted, Friedman has argued that corporate managers can never justify making such investments on “free-market” principles. Only a motive of profit-seeking for the firm, *never* an improved society, could justify such a donation.<sup>48</sup>

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

I would argue that a business enterprise, regardless of legal form, has the same rights in this regard as the individuals who comprise it, that is to act in its own self interest. Doing good in the sense of giving their wealth away is exactly what gives many people the self-satisfaction they crave. Doing good in the sense of providing goods or services as efficiently as possible is exactly what gives others the most satisfaction. There is absolutely nothing about being involved in trade commerce that should be incompatible with either approach.

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<sup>48</sup> Doug Den Uyl says Ford’s extremely profitable 1914 decision to raise wages and shorten its workday hours was considered an act of charity, a “spiritual principle,” by the editors of *The Wall Street Journal*. He says “(i)t may be better to let the market decide whether quality circles, Scanlon plans, participatory management, corporate charity drives, rehabilitation programs, and the like are fads or ultimate profit enhancers, than it would be to listen to either Friedman or Nader tell us what is or is not ‘profit maximizing’ or ‘socially responsible.’” Den Uyl, 1984, p. 29.

## Friedman on lobbying

Another question is what precisely is meant by his statement that a firm should engage in activities designed to increase its profits “*as long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud?*” What, for example, constitutes the “rules of the game” and what might be included in “activities designed to increase its profits.” What about taking advantage of special privileges?

When our organization began in 1979, we were under the impression that Friedman was opposed to businessmen seeking subsidies, tariffs and special privileges, but that he would have to concede, albeit reluctantly, that, on the basis of this position, a corporate executive would be duty bound to take advantage of as many benefits as were already on the books; *i.e.*, “within the rules of the game.” While disappointing, this was understandable.

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

On the basis of his philosophy and his words, he gave them a green light, as witnessed by Charles H. Brunie, chairman of Oppenheimer Capital Corporation:

“William Simon in his book, *A Time for Truth*, keeps castigating businessmen for running down to Washington and looking for handouts, as opposed to sponsoring the free market. Ralph Leach, the retired Vice-Chairman of Morgan Guaranty, and Milton Friedman have each told William Simon they disagree with him. They maintain that is exactly what a businessman should do; he should run to Washington for all the help he can get; it is the politician’s job to say no.”<sup>49</sup>

Coincidentally, this speech by Brunie was delivered to a group of supposedly free-market business people, and was also mailed to a large group of supposedly free-market executives and

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<sup>49</sup> Wilcke, *Competition*, 1983, p. 2.

owners. Most of them would have agreed that, in principle a free-market ethical standard would be good, but, they explained, “we have shareholders to worry about.” When asked if they might at least admit to “aspiring” to a free-market, most politely declined.

### **The role of politicians**

Friedman has argued eloquently that market economies, in which consumers are “free to choose,” are both more efficient and *ethically* superior to command-and-control economies, and that government is “the agency that is widely regarded as having a monopoly on the legitimate use of force or the threat of force as the means through which some of us can legitimately impose restraints through force upon others of us.”<sup>50</sup> Is there any way he can deny that it is unethical for business to use government to override the choices of consumers?

His position, which seems to have resulted from his willingness to defend an implication of his 1970 article, is that while business enterprises should abide by this ethic, the responsibility for it lies with the government, especially with elected office-holders. An agent of the owners of a profit-seeking corporation has no responsibility for it. Just as the manager purportedly gives up his or her rights as an individual to take actions other than seek profits, presumably he or she also gives up responsibility to behave ethically regarding politics.

The responsibility for this ‘business ethic’ is shifted to agents of the government. Elected officials are supposed to “say no” to these amoral agents of business when they come asking for favors. But “limited lobbying” is no more possible than is limited warfare. Business people tend not to accept “no” for an answer. And according to Friedman, as long as their motives are to seek profits for the company (rather than some “social good”), they have a ‘responsibility’ to use the resources of the firm and engage in any activities “within the rules of the game.”

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<sup>50</sup> Friedman, 1970, p. 28.

What business-people do – which is what they have always done – is to “pull out all the stops.” If a politician says “no” too often, they will – as good business managers should – take a longer view, which means they will work to get him or her defeated by a candidate more likely to say “yes” next time. If a strict interpretation of the constitution is the reason for “no,” they’ll sponsor research, start a think tank, or do whatever else is necessary to change that.<sup>51</sup>

The point is, given that corporate executives have both the *motive* (profits) and the *means* (resources of the firm), over the long run they will always overwhelm the ability of a government to say “no.” The only possible brake would be widespread ethical disapproval, especially among potential customers. The idea that business *should* do everything legal in the cause of profits is wrong because there is then no ethical constraints on their political activities.

Government is an imperfect reflection of public attitudes on every topic that has political implications. As George Will once wrote, politicians are like those windsocks at small airports; *i.e.*, mostly air, but useful nonetheless as an indicator of which way the winds are blowing. Does Friedman truly believe that we should have politicians define and enforce the ethical standard for society? A business, regardless of legal form, is people. And if it is unethical for an individual to use the government to steal, it *cannot* be ethical for a corporation.

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

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

The fact is, politicians themselves do not see their job as saying “no.” Most tend to see their job as one of saying “yes! yes! yes!” – to as many constituencies and interest groups as is humanly and fiscally possible. Government, especially in a democracy, thrives on its ability to grant favors. How many members of Congress will turn down a corporate executive who wants help if they don't have to? Any member of Congress who argued on principle that the business community should *not* be asking for government aid would be told that “even Milton Friedman agrees that we should be trying to get all the help we can!”

The last point is that in a 1981 letter to the author, Friedman acknowledged the futility of change through politics and the significance of public opinion:

“Like you, I do not believe the solution to our problem is simply to elect the right people. The important thing is to establish a political climate of opinion in which it will be politically profitable for the wrong people to do the right thing. Unless it is politically profitable for the wrong people to do the right thing, the right people will not do the right thing either, or if they try, they will shortly be out of office.”<sup>52</sup>

### **Several obstacles**

One vexing obstacle to this ethic is the idea that business should never be criticized lest the system be undermined. The reason some disliked our high road was precisely because it *did* imply that some businessmen were taking a “low” one. They hated any hint of transgressions by

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<sup>51</sup> Corporate interests, not to mention agriculture, have employed many methods to affect politics through education and persuasion. Elizabeth Fones-Wolf, while focusing mainly on the post-war anti-labor message, has made a useful contribution nonetheless by stressing “*business's ideological campaigns.*” Fones-Wolf, 1994, p. 10.

business and a number of angry letters (even from conservatives and objectivists) asked why we insisted on adding to anti-capitalist feelings already too prevalent.

“All you’re doing,” they wrote, “is giving ammunition to the anti-market side. To say all interventions are bad undermines the system you want to save.”

The message was always don’t bash business. Even William Simon, whose book helped us launch the organization, couldn’t avoid blaming government:

“I still believe it is obvious that business...is more sinned against than sinning. This view, of course, clashes with the conventional liberal wisdom that business is ‘really’ controlling the regulatory agencies. It is easy enough to arrive at an objective assessment of where the power ‘really’ lies. Just ask yourself if the dictatorial and destructive situation...in the regulatory agencies could possibly exist if business ‘really’ controlled these agencies.”<sup>53</sup>

The point here is not that *every* business and industry has always worked for regulations and benefited from them, but that *some* from *most* industries always have. Great enterprises have been built by entrepreneurs who did not ask for government help.<sup>54</sup> Indeed, that spirit is alive yet, but such individualists tend to be disinclined to serve as examples.

On the other hand, every elected official – certainly every member of Congress, including avowed socialists – likely got there with the support of corporate donors. Business can always be found on all sides of every election campaign – liberal or conservative, Democrat or Republican, even capitalist or fascist – and corporate interests can usually be found on every side of even the most onerous regulations. One might paraphrase the famous comment of William Shakespeare on ill winds thusly, “*Rare blows the regulation that profits nobody.*”

The other obstacle, related to Friedman, is intellectual influence, especially of the people who have a reputation of knowing better. It is a sad fact that deviations of prominent scholars can

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<sup>52</sup> Personal letter to the author, 1981. Quoted in Wilcke, *VPI Lecture*, 1983.

<sup>53</sup> Simon, 1978, p. 197.

<sup>54</sup> Burton Folsom has written books that, while acknowledging statist businessmen, have sought to celebrate creative entrepreneurs thereby helping to distinguish between “*predators*” and “*builders.*” Folsom, 1987, p. 107.

have a powerful impact (sometimes in the opposite direction of their life's work) by being cited by their adversaries; *e.g.*, “Even Adam Smith said businessmen would conspire to fix prices,” or “even Nobel Laureate James Buchanan believes in estate taxes.”

Years ago, I rode in a limousine from Washington, D.C., up to Irvington, New York, for a FEE meeting with Steve Symms, then a Republican Senator from Idaho. On the way, he found out that I, like he, had spent time in the Marine Corps. He asked, “Don't you agree with me that the country would be a lot better off if every young man at the age of 18 was made to go through Marine Corps boot camp? Wouldn't it be great for them?”

I said, “Well, I'm not so sure I thought boot camp was as uplifting as you seem to feel it was, but it sure didn't hurt me. But remember you and I were volunteers. I wouldn't like the idea simply because I don't believe in drafting people.” He said something like, “You're wrong. Even Ludwig von Mises, your hero, understood and defended the need for the draft.” He immediately scored one because, of course, Mises is one of my heroes.

### **Optimistic conclusion**

For years my primary focus, an area I still consider to be a specialty, was the agricultural economics profession. In the mid-1970s, I began to scour the literature of agricultural economics, both books and journal articles, in an effort to find scholarly works that were even slightly market oriented. After a mostly futile search, and letters to scores of people, I concluded that the nature of the USDA-Land Grant complex discouraged such thinking.

Now, 20 years later, in what is mostly a reaction to the reality of politics, economists of the agricultural persuasion have begun to endorse more market-oriented policies. This suggests to me that Keynes may have had it precisely backwards. It seems as if it is ideas of “*politicians*” that “are more powerful than is commonly understood,” and that “*economists*,” who distill their frenzy from the air, are the slaves of some “defunct” *politician*.

When I was trying to get ag economists to acknowledge the free market even as an ideal, they refused to do it. I can count on one hand the brave souls who would even discuss the issue in 1978. Now, on what grounds do these economists, mostly career statisticians, explain that policy prescriptions in their *new* books and articles are radically different than the prescriptions in their *old* ones? Elementary, Watson! The economy has changed. *New data!*

An example comes from a book by Willard Cochrane and Ford Runge of the University of Minnesota, well-known as a traditional fount of rural interventionism:

“It is the basic premise of this book that current farm policy badly needs reforming. In particular, the commodity programs which form the core of the policy are out-of-date, and out-of-sync with the modern farm economy...In the 1930s, the Great Depression years, when the programs were conceived, the vast majority of farmers were medium-sized farmers, and almost all were in financial trouble as the result of disastrously low farm prices. The programs were designed to deal with the common problems of this broad group of farmers. And they largely succeeded.”<sup>55</sup>

It isn't necessary to argue these points. Let it suffice to show the authors admit no errors. Instead, they say, “We recognize that different times require different policies.”

I'm thinking that business ethicists could similarly change their tune about profit-seeking on the grounds that things have changed. They could say, “In the past, when firms were far less ethical, it was important to point out socially responsible goals, but now that there is a standard of corporate behavior based on the free market, we *endorse* profits. Those old ideas are no longer ‘in sync’ with today’s enlightened and ethical business community.”

One can dream.

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<sup>55</sup> Cochrane and Runge, 1992, p.

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